

DAVID Y. IGE  
GOVERNOR



DENISE ISERI-MATSUBARA  
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  
**DENISE ISERI-MATSUBARA**  
Hawaii Housing Finance and Development Corporation  
Before the

**LATE**

### SENATE COMMITTEE ON WAYS AND MEANS

March 4, 2021 at 1:45 p.m.  
State Capitol, Room 211

In consideration of  
**S.B. 1091, S.D. 1**  
**RELATING TO STATE FUNDS.**

The HHFDC supports Section 6 of S.B. 1091, S.D. 1, which authorizes the Director of Finance to transfer tax-exempt general obligation bond proceeds of up to \$45,000,000 from the Rental Housing Revolving Fund (RHRF) to the Dwelling Unit Revolving Fund (DURF). We take no position on the remainder of this bill.

The RHRF currently has approximately \$44 million in tax-exempt bond proceeds and interest earnings as a portion of its cash balance. Tax-exempt bond proceeds have specific limits established by the Internal Revenue Service on how they may be used. These tax-exempt bond proceeds can only be used for the purposes of the RHRF if a potential rental housing project does not plan to use other tax-exempt or tax-advantaged financing sources, such as Low-Income Housing Tax Credits or Hula Mae Multifamily revenue bonds in its financing package. Because the vast majority of affordable rental housing projects require tax credits to be feasible to develop, the majority of this tax-exempt RHRF balance cannot be used for the purposes of the RHRF.

If this tax-exempt fund balance were transferred to the DURF, they could be used by the Hawaii housing finance and development corporation to make needed infrastructure improvements in the corporation's Kapolei and Waiahole Valley subdivisions, because public infrastructure projects are allowable uses of tax-exempt bond funds. HHFDC therefore supports Section 6 of this bill.

Thank you for the opportunity to provide written comments on this bill.



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE  
GOVERNOR  
MIKE MCCARTNEY  
DIRECTOR  
CHUNG I. CHANG  
DEPUTY DIRECTOR

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Statement of  
**MIKE MCCARTNEY**  
Director

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEE ON WAYS AND MEANS**

Thursday, March 4, 2021  
1:45PM  
State Capitol, Conference Room #211

**LATE**

In consideration of  
**SB 1091, SD1**  
**RELATING TO STATE FUNDS.**

Chair Dela Cruz, Vice Chair Keith-Agaran and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) would like to offer **comments** on Sections 13 and 14 of SB1091, SD1, which transfers monies in Special Funds to the State's General Fund and appropriated back to the Department of Business, Economic Development, and Tourism.

DBEDT's Foreign-Trade Zone (FTZ) relies solely on its Special Fund to support its operations. It was created by the legislature as the sole financial mechanism for the division as it felt the constituents who benefited from the program, not the State taxpayers, should fully underwrite its activities. This program has successfully operated through the singular use of its Special Fund for over 50 years. Without the fund, FTZ will be unable to maintain its aging facility and could lead to eventual termination of its operations.

While DBEDT concurs with the intent to transfer the State Disaster Loan special fund to the general fund, it requests that any Special Funds that support ongoing operations be fully retained for those purposes.

DBEDT is aware of the financial distress of the State and is committed to collaborating with the Committee to reach an amicable agreement on the various DBEDT programs' unencumbered cash balances that can be reverted to the General Fund.

Thank you for the opportunity to comment.

DAVID Y. IGE  
GOVERNOR

JOSH GREEN M.D.  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
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ISAAC W. CHOY  
DIRECTOR OF TAXATION

**LATE**

To: The Honorable Donovan M. Dela Cruz, Chair;  
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;  
and Members of the Senate Committee on Ways & Means

From: Isaac W. Choy, Director  
Department of Taxation

Date: March 4, 2021

Time: 1:45 P.M.

Place: Via Videoconference, Hawaii State Capitol

**Re: S.B. 1091, S.D. 1, Relating to State Funds**

The Department of Taxation (Department) strongly supports S.B. 1091, S.D. 1, an Administration measure and offers the following comments for your consideration.

This measure authorizes the transfer of funds from certain special funds to the general fund. The measure also authorizes the Director of Finance to issue general obligation bond funds supplant the special funds where appropriate. Regarding the Department's special funds, S.D. 1 appropriates \$1,029,763 from the Cigarette Tax Stamp Administrative Special Fund and \$2,617,063 from Tax Administration Special Fund (TASF) to the general fund. S.D. 1 has a defective effective date of July 1, 2050.

The Department appreciates Section 23 of this measure specifying that the amount transferred from the TASF to the general fund is to be expended by the Department.

Thank you for the opportunity to provide testimony in support of this measure.

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR  
  
ROBERT YU  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 1091, S.D. 1

**March 4, 2021**  
**1:45 p.m.**  
**Room 211 and Videoconference**

**LATE**

**RELATING TO STATE FUNDS**

The Department of Budget and Finance supports this Administration bill.

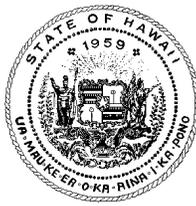
Senate Bill (S.B.) No. 1091, S.D. 1: authorizes the transfer of various special and revolving funds to the general fund; replaces certain special fund balances with general obligation bond funds; and authorizes the transfer of excess moneys from the Rental Housing Revolving Fund into the Dwelling Unit Revolving Fund.

The COVID-19 pandemic has been devastating to global, national, and state economies. The State of Hawai'i experienced a revenue decline of \$2.3 billion for FY 2019-21, with the most significant impact to the State's general fund. To help address the general fund shortfall, excess balances from various special and revolving funds are proposed to be transferred to the general fund to ensure continued funding of critical State programs and activities.

S.B. No. 1091, S.D. 1, incorporates the additional transfers identified by the Administration pursuant to Executive Memorandum No. 20-11, which directed departments to review their special and revolving funds to identify excess cash balances as of December 31, 2020.

Thank you for your consideration of our comments.

DAVID Y. IGE  
GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF PUBLIC SAFETY**  
919 Ala Moana Boulevard, 4th Floor  
Honolulu, Hawaii 96814

**MAX N. OTANI**  
DIRECTOR

**Maria C. Cook**  
Deputy Director  
Administration

**Tommy Johnson**  
Deputy Director  
Corrections

**Jordan Lowe**  
Deputy Director  
Law Enforcement

No. \_\_\_\_\_

TESTIMONY ON SENATE BILL 1091, SENATE DRAFT 1  
RELATING TO STATE FUNDS.

by  
Max N. Otani, Director

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

**LATE**

March 4, 2021; 1:45 p.m.  
Via Videoconference

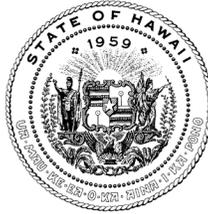
Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

The Department of Public Safety (PSD) offers comments regarding Senate Bill (SB) 1091, Senate Draft (SD) 1. PSD appreciates the intent of the bill to help address the State's budget shortfall caused by the COVID-19 pandemic, by transferring or authorizing the transfer of funds from certain special or revolving funds.

The Department notes that Section 22 of the bill transfers \$500,000 from the Automated Victim Information and Notification System Special fund, under PSD's Reentry Coordination Office, to the General Fund, to be expended by the Department of Land and Natural Resources. The Department believes this is an unintended error and respectfully requests the Committee on Ways and Means amend SB 1091, SD 1 to designate the Department of Public Safety as the expending agency.

Thank you for the opportunity to present this testimony.

DAVID Y. IGE  
GOVERNOR OF  
HAWAII



SUZANNE D. CASE  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA  
FIRST DEPUTY

M. KALEO MANUEL  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

Testimony of  
SUZANNE D. CASE  
Chairperson

Before the Senate Committee on  
WAYS AND MEANS

**LATE**

Thursday, March 4, 2021  
1:45 PM

State Capitol, Videoconference, Conference Room 211

In consideration of  
SENATE BILL 1091, SENATE DRAFT 1  
RELATING TO STATE FUNDS

Senate Bill 1091, Senate Draft 1, proposes to (1) appropriate out of the Land Conservation Fund the sum of \$26,300,000 or so much thereof as may be necessary for Fiscal Year (FY) 2021-2022 to be deposited into the general fund; the sum appropriated shall be expended by the Department of Land and Natural Resources; (2) authorize the director of finance to issue taxable general obligation bonds in the sum of \$26,300,000 or so much thereof as may be necessary for FY 2021-2022 for deposit into the Land Conservation Fund; and transfer excess monies from certain special and revolving funds to the General Fund. **The Department of Land and Natural Resources (Department) acknowledges that this bill supports our Legacy Land Conservation Program, and offers the following comments relative to SECTIONS 2 and 3.**

- 1) The Department operates the Legacy Land Conservation Program (LLCP) under a current annual Land Conservation Fund spending ceiling of about \$5.1 million.
- 2) The LLCP has an obligation to assure that the forty properties already procured and ten pending are managed for the purpose for which the State awarded the grant funds. LLCP staff supports this work, as well as administers the work of the Legacy Land Conservation Commission, the completion of Capital Improvement Projects (CIP) for land acquisition by the Department, and manages the program budget and finances.
- 3) For this work, the Department requires at least \$284,248 annually to perform essential LLCP functions, plus another \$1.5 million per year for required debt service payment on the Turtle Bay reimbursable general obligation bonds. Whatever additional funds are

available are applied to the competitive grant process, which would be approximately \$3,315,000 per year under the current ceiling authorization.

The Department supports the proposed deposit of bond proceeds into the FY 2022 Land Conservation Fund, and respectfully requests authorization to use bond proceeds to fund CIP for our priority land acquisitions, as indicated in the Executive Budget CIP request and as prioritized by the LLCP.

The Department estimates that at the start of FY 2022, the unencumbered cash balance held in the Land Conservation Fund will be \$24.8 million. The Department is concerned that there could be insufficient funds available for program operations in FY 2022 due to the transfer proposed in Senate Bill 1091 and the proposed suspension of conveyance tax distribution in Senate Bill 1092. In order to assure continuity of operations, the Department respectfully requests that sufficient cash to fund program operations in FY 2022 (\$285,000) be retained in the Land Conservation Fund or specifically appropriated out of the general fund for LLCP operations, and that the Turtle Bay debt service obligation of \$1,500,000 be accounted for in the funding allocation.

Thank you for the opportunity to comment on this measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Raid on Special Funds

BILL NUMBER: SB 1091, SD1

INTRODUCED BY: Senate Committee on Ways and Means

**LATE**

EXECUTIVE SUMMARY: Authorizes transfer of special funds to general fund, replaces special fund appropriations with general obligation bond funds, authorizes transfer of excess moneys from other sources into the dwelling unit revolving fund.

SYNOPSIS: Reappropriates funds as follows:

- \$26.3 million from the land conservation fund to the general fund. General obligation bonds are authorized to make up the balance in the fund.
- \$15.0 million from the emergency medical services special fund to the general fund.
- \$1.0 million from the cigarette tax stamp administrative special fund to the general fund.
- \$45.0 million in general obligation bond proceeds from the rental housing revolving fund to the dwelling unit revolving fund.
- All of the following to the general fund:
  - \$317,711 from the state archives preservation and long-term access special fund;
  - \$200,000 from the criminal forfeiture revolving fund;
  - \$50,000 from the DNA registry special fund;
  - \$140,000 from the internet crimes against children special fund;
  - \$150,000 from the notaries public revolving fund;
  - \$600,000 from the criminal records improvement revolving fund;
  - \$280,877 from the state disaster revolving fund;
  - \$483,723 from the foreign-trade zone special fund;
  - \$14,355 from the general support for health care payments special fund;
  - \$56,000 from the dietitian licensure special fund;
  - \$1,350 from the human trafficking victim special fund;
  - \$420,257 from the bureau of conveyances special fund;
  - \$590,000 from the water and land development special fund;
  - \$236,011 from the special land and development fund;
  - \$68,165 from the Hawaii historic preservation special fund;
  - \$500,000 from the automated victim information and notification system special fund; and
  - \$2,617,063 from the tax administration special fund;

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: This bill is part of the Administration package, sponsored by the Department of Budget & Finance and identified as BUF-25 (21).

The bill essentially raids the specified funds. The State's justification is that additional funds from various special funds are needed for transfer to the general fund to ensure continued funding of critical state programs.

We cannot argue with the proposition that excess balances in special funds should be repurposed first before reducing core services or increasing taxes.

Appropriation is not supposed to be difficult. Lawmakers, with the help of our Council on Revenues, figure out how much money we're expected to collect. They listen as the various executive agencies and departments show them what their respective programs have achieved for the people of Hawaii. Lawmakers then decide which programs and services are worthy of how much of our hard-earned taxpayer dollars, and off we go for another fiscal year.

This, however, isn't enough for some people (or departments), who are absolutely fixated on securing a "dedicated funding source" for their favorite program or department. A dedicated funding source usually means setting up a special fund, which is tougher to police using the appropriation process, and a grab on tax revenues before they can be counted with the rest of state realizations during the budgeting processes. Dedicated funding sources can and do protect inefficient or questionable programs and expenditures.

Legislators argue that the Legislature exercises more than adequate oversight over these special funds even though they aren't covered in the normal appropriation process. But how does that explain findings like the State Auditor's Report No. 20-06, which found more than \$75 million in accounts associated with inactive special or revolving funds? Or Report No. 20-07, which found tens of millions of dollars in special funds that swelled in size over the years, indicating an imbalance between the so-called dedicated funding source and the programs and services it was supposed to fund? Or Report No. 20-08, which built on Report No. 20-06 and made the bold statement, "More than \$483 million in excess moneys may be available to be transferred from 57 special and revolving fund accounts to the General Fund without adversely affecting programs"?

The continued existence of a program or service is supposed to be earned. If a program or service efficiently delivers value to the people of Hawaii, then it is worthy of our continued support. It's not supposed to be forced by tax grabs, special funds, and other gimmicks. We need to start recognizing that this "dedicated funding source" rhetoric is taking us down the wrong path.

Digested 3/3/2021

**SB-1091-SD-1**

Submitted on: 3/3/2021 6:05:55 PM

Testimony for WAM on 3/4/2021 1:45:00 PM



<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Bronson Azama	Individual	Comments	No

Comments:

Youth Advocate stands in support of Trust for Public Land's testimony.

**LATE**

**SB-1091-SD-1**

Submitted on: 3/4/2021 7:58:27 AM

Testimony for WAM on 3/4/2021 1:45:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Victor K. Ramos	Individual	Oppose	No

Comments:

Strongly Oppose