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WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 2239, H.D. 1

March 28, 2024
9:50 A.M.
Room 211 and Videoconference

RELATING TO NON-GENERAL FUNDS.

The Department of Budget and Finance supports H.B. No. 2239, H.D. 1 to reclassify or abolish certain non-general funds of the Department of Budget and Finance, pursuant to the recommendations made by the Auditor in Auditor's Report No. 24-01 (Review of Special Funds, Revolving Funds, Trust Funds and Trust Accounts of the Department of Budget and Finance). The Department concurs with the report's recommendation to reclassify the Temporary Deposits-Budget and Finance account as a trust fund or to be closed; and to abolish the Temporary Deposits-Budget and Finance Financial Administration Division trust account. Both have zero balances.

Thank you for your consideration of our comments.

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Reclassify Funds of Department of Budget & Finance

BILL NUMBER: HB 2239 HD 1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Reclassifies or abolishes certain non-general funds of the Department of Budget and Finance, pursuant to the recommendations made by the Auditor in Auditor's Report No. 24-01. Transfers to the general fund the excess balances of various non-general funds from various state departments and agencies.

SYNOPSIS: Reclassifies the “Temporary Deposits – Budget & Finance Trust Account,” administratively established prior to 1980, as a trust account.

Abolishes the “Temporary Deposits – Budget & Finance Financial Administration Division Trust Account,” administratively established in 2021.

Transfers to the general fund the excess balances of various non-general funds from various state departments and agencies: (1) [unspecified] and (2) [unspecified].

EFFECTIVE DATE: July 1, 3000.

STAFF COMMENTS: 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 on monies in special funds, HRS 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 bill was the result of Auditor’s Report No. 24-01.

We note that the language added by the House Finance Committee would make this a “raid bill” to raid the specified funds (none have been specified yet) and transfer any designated balances to the general fund.

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: 3/25/2024