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TESTIMONY BY LUIS P. SALAVERIA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE  
ON  
HOUSE BILL NO. 2378, H.D.1

**February 14, 2024**  
**2:00 P.M.**  
**Room 329 and Videoconference**

RELATING TO THE HURRICANE RESERVE TRUST FUND

The Department of Budget and Finance (B&F) supports H.B. 2378, H.D.1 an Administration bill to move the Hurricane Reserve Trust Fund into the State Treasury. H.D.1 corrects the part of this measure intended to repeal an obsolete portion of section 237-31, HRS, that related to the replenishment of funds transferred from the Hurricane Reserve Trust Fund in 2011.

The state treasury maintains an investment pool consisting of participating state accounts. Funds within the state treasury are prudently managed to achieve the investment objectives of safety, liquidity, and yield, in priority order. The investment pool also enables the achievement of economies of scale for the effective and efficient management of funds and enhances the State's liquidity position.

Presently, under section 431P-16, HRS, the Hurricane Reserve Trust Fund is established outside the state treasury under the direction of a board. Although established outside the state treasury, by statute, interest earned from the principal in the Hurricane Reserve Trust Fund is transferred and deposited into the general fund each year.

The amount of interest earned from the principal in the Hurricane Reserve Trust Fund and deposited to the general fund has fluctuated over the years. For the past several years, the fund has been invested by a bank trust division and operations have been dormant. At this time, it would be in the State's best interest to place the Hurricane Reserve Trust Fund within the state treasury. The transfer will also align investment objectives as the interest on the principal belongs to the general fund.

Following discussions with the Department of Commerce and Consumer Affairs, which administers the Hurricane Reserve Trust Fund, B&F is proposing additional amendments to section 2 of the bill as follows:

Page 2, line 18, through page 3, line 11, should also be amended (highlighted additional deletions) to read as follows:

SECTION 2. Section 431P-16, Hawaii Revised Statutes, is amended by deleting portions of subsection (a) to read as follows:

"(a) The fund shall establish [~~outside the state treasury~~] a hurricane reserve trust fund and any accounts thereunder and any other trust fund or account necessary to carry out the purposes of this chapter. Moneys deposited in the hurricane reserve trust fund and any accounts thereunder or any other trust fund or account shall be held by the fund, as trustee, in a depository as defined in section 38-1 or according to a similar arrangement [~~at the discretion of the board,~~] including, but not limited to, trust or custodial accounts created for the benefit of the fund's secured parties under contractual claims financing

arrangements. ~~[These moneys may be invested and reinvested in accordance with the plan of operation.]~~ Disbursements from the trust funds shall not be subject to chapter 103D and shall be made in accordance with procedures adopted by the board."

Thank you for your consideration of our comments.

# TAX FOUNDATION OF HAWAII

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**SUBJECT:** GENERAL EXCISE, Earmark to Hurricane Reserve Trust Fund

**BILL NUMBER:** HB 2378 HD 1

**INTRODUCED BY:** House Committee on Water & Land

**EXECUTIVE SUMMARY:** Moves the Hurricane Reserve Trust Fund into the State Treasury and makes a housekeeping amendment to the fund.

**SYNOPSIS:** Amends section 237-31, HRS, to delete earmark (2) from the general excise tax. This earmark now reads as follows:

(2) A sum from all general excise tax revenues realized by the State that is equal to one half of the total amount of funds appropriated or transferred out of the hurricane reserve trust fund under sections 4 and 5 of Act 62, Session Laws of Hawaii 2011, shall be deposited into the hurricane reserve trust fund in fiscal year 2013-2014 and in fiscal year 2014-2015; provided that the deposit required in each fiscal year shall be made by October 1 of that fiscal year;

Amends section 431P-16, HRS, to delete the requirement that the hurricane reserve trust fund be outside the state treasury.

**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.

This bill repeals an earmark on the general excise tax and thus appears to be a step in the right direction.

Digested: 2/12/2024