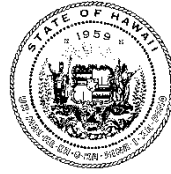


DAVID Y. IGE
GOVERNOR



DOUGLAS MURDOCK
Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
DOUGLAS MURDOCK, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEE
ON
WAYS AND MEANS
ON
MARCH 3, 2015

S.B. 1092

RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Chair Tokuda and members of the Committee, thank you for the opportunity to submit written testimony on S.B. 1092.

The Department of Accounting and General Services (DAGS) supports S.B. 1092 with respect to those accounts administered by DAGS.

Thank you for the opportunity to submit written testimony on this matter.

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. 1092

March 3, 2015

RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Senate Bill No. 1092 repeals several unused or inactive non-general fund accounts with low balances or no activity in recent years, abolishes various administratively established trust accounts, and transfers the balance of the Fee Simple Residential Revolving Fund to the general fund. This bill is based on House Bill No. 2427, H.D. 1, S.D. 1, C.D. 1, from the 2014 Legislature that was vetoed, but excludes the repeal of the Center for Labor Education and Research Revolving Fund, as it still serves its statutory function. Additionally, this bill also repeals two other non-general funds.

The Department of Budget and Finance strongly supports this Administration measure as we believe that the non-general fund accounts listed in this bill are no longer necessary due to low balances and inactivity. The funds being repealed in this bill are as follows:

- Captain Cook Memorial Fund, Sections 6E-4, 6E-33, HRS
- Infrastructure Development Fund, Section 171-19.5, HRS
- Pineapple Workers and Retirees Housing Assistance Fund, Section 201H-85, HRS
- Statewide Geospatial Information and Data Integration Special Fund,
Sections 225M-6, 225M-7, HRS
- Transportation Use Special Fund, Sections 261D-1, 261D-4, 261-5, 36-30(a), HRS

- Food Distribution Program Revolving Fund, 302A-1315, HRS
- Career and Technical Training Projects Revolving Fund, Section 304A-2268, HRS
- University of Hawaii Alumni Special Fund, Section 304A-2175, HRS
- Animal Research Farm, Waialeale, Oahu Special Fund, Section 304A-2177, HRS
- Public Health Nursing Services Special Fund, Chapter 321, Part XXXV, HRS, and Section 321-432, HRS
- Blind Shop Revolving and Handicraft Fund, Section 347-12, HRS
- Fee Simple Residential Revolving Fund, Section 516-44, HRS
- Donations for Voter Registration Drive Trust, Hawaii FYI-ICSD Trust Account, Parking Control Revolving Fund Escrow Account, Returned ACH Tax Refunds Trust Account, HDOA Biocontrol Foreign Exploration Special Fund, Hawaii EUTF Self-Directed Investments Trust Account and an account controlled by the State Commission on Fatherhood

Due to inadvertent oversight, Part II, Section 5 and 6 of this bill which repeals Section 171-19.5, HRS, regarding the establishment of Infrastructure Development Fund, was already repealed in Act 132, SLH 2013, and, therefore, is not needed in this bill.

Thank you for the opportunity to testify in strong support of Senate Bill No. 1092.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, March 3, 2015
Time: 9:00 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

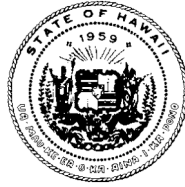
Re: S.B. 1092, Relating to the Repeal of Non-General Funds

S.B. 159 proposes to repeal certain non-general fund accounts, including the returned ACH tax refunds trust account as set forth in section 32 of this bill. The Department supports the repeal of this trust account as it is no longer used.

Since 2012, with the collaboration of the Department of Accounting and General Services, the Department now handles all returned tax refunds directly; therefore, the returned ACH tax refund trust account is no longer necessary.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
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
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON WAYS AND MEANS

March 3, 2015 at 9:00 a.m.
State Capitol, Room 211

In consideration of
S.B. 1092
RELATING TO THE REPEAL OF NON-GENERAL FUNDS.

HHFDC **supports Parts III and XII** of S.B. 1092, which repeals the Pineapple Workers and Retirees Housing Assistance Fund, and transfers the balances of the Fee Simple Residential Revolving Fund to the General Fund, respectively. We defer to the Department of Budget and Finance on the remainder of this bill.

The HHFDC agrees with the Auditor's finding that the Pineapple Workers and Retirees Housing Assistance Fund has fulfilled its purpose and should be repealed. We also agree with the Legislative Auditor's findings that the Fee Simple Residential Revolving Fund no longer serves the purpose for which it was created and do not object to the transfer of its balance to the General Fund.

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



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Ways and Means
March 3, 2015 at 9:00 am Room 211

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

S.B. 1092 – RELATING TO THE REPEAL OF NON-GENERAL FUNDS

Chair Tokuda, Vice Chair Kouchi, and members of the Ways and Means committee:

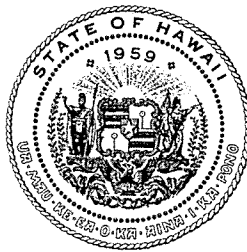
Thank you for this opportunity to testify. The University of Hawai'i (UH) supports the proposed actions in S.B. 1092, Relating to the Repeal of Non-General Funds.

The University recognizes that S.B. 1092 proposes to repeal those funds that were identified in a bill passed by the Legislature in 2014, but subsequently vetoed by the governor. The University of Hawai'i defers to the decision of the Legislature on the disposition of those Funds identified in S.B. 1092 under the purview of the University:

- The Career and Technical Training Projects Revolving Fund, University of Hawaii at Hilo (Section 304A-2268, HRS).
- The University of Hawaii Alumni Special Fund (Section 304A-2175, HRS).
- The Animal Research Farm, Waialae, Oahu Special Fund (Section 304A-2177, HRS).

There are a number of other funds identified for recommended action in S.B. 1092. Those Funds for which are not under the purview of the University we take no position. The University recognizes that the Senate Committee on Ways and Means is also considering a proposed S.D. 1 for S.B. 1092 and does not have any position or comment on the proposed draft.

Thank you for your time and consideration.



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 1092,
RELATING TO THE REPEAL OF NON-GENERAL FUNDS**

Senate Committee on Ways and Means

March 3, 2015

Chair Tokuda and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in partial support of Senate Bill No. 1092 (SB 1092), which would, among other purposes, repeal various non-general funds and accounts and lapse the unencumbered balances to the general fund. We also offer comments on specific sections of this bill.

Over the last several years, we have reported on our reviews of revolving and trust funds and trust accounts for the following departments:

- 1) Report No. 10-09 (JUD, DCCA, HHL, DHS)
- 2) Report No. 11-04 (Governor and Lieutenant Governor, DOE, OHA)

In addition, we have also reported on our reviews of special, revolving, and trust funds and trust accounts for the following departments:

- 1) Report No. 14-01 (DAGS, AGR, and B&F);
- 2) Report No. 14-04 (DOD, (DLNR)
- 3) Report No. 14-05 (DOT)
- 4) Report No. 14-13 (ATG and DBEDT); and
- 5) Report No. 14-18 (UH).

Our funds reviews evaluate the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). We do not conclude about the effectiveness of programs and their management; however, for special and revolving funds, we conclude on the need for the fund based on the purpose and scope of the program it supports. This bill would implement many of our report recommendations.

Funds that *do not meet* criteria would be repealed by SB 1092

We support repealing the following funds that *do not meet* criteria:

1. **Infrastructure Development Special Fund** (Section 5) established under §171-19.5, HRS. The fund was closed on January 31, 2011 (Report No. 14-04).
2. **Pineapple Workers and Retirees Housing Assistance Fund Special Fund** (Section 7) established under §201H-85, HRS. We recommended repeal; DBEDT agreed (Report No. 14-13).
3. **Statewide Geospatial Information and Data Integration Special Fund** (Section 9) established under §225M-7, HRS. We recommended repeal; DBEDT agreed (Report No. 14-13).
4. **Transportation Use Special Fund** (Section 12) established under §261-D-1, HRS. We recommended repeal; DOT agreed (Report No. 14-05)
5. **Career and Technical Training Projects Revolving Fund** (Section 19) established under §304A-2268, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).
6. **University of Hawai‘i Alumni Special Fund** (Section 21) established under §304A-2175, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).

7. **Animal Research Farm, Waiale‘e O‘ahu Special Fund** (Section 23) established under §304A-2177, HRS. We recommended repeal; UH deferred to the Legislature (Report No. 14-18).

Funds and trust accounts that *do not meet* criteria would be abolished by SB 1092

We support Section 32 of the bill, which would abolish administratively created funds and trust accounts in DAGS and AGR that *do not meet* criteria:

1. **Donations for Voter Registration Drive;**
2. **Hawai‘i FYI–ICSD;**
3. **Parking Control Revolving Fund Escrow Account;**
4. **Returned ACH Tax Refunds;**
5. **HDOA Biocontrol Foreign Exploration Special Fund;** and
6. **Hawai‘i EUTF Self-Directed Investments.**

Transferring cash balances from a fund is appropriate, especially from one that should be repealed

We support Section 30 of this bill that transfers unexpended and unencumbered cash balances from the **Fee Simple Residential Revolving Fund**, established under §516-44, HRS, to the general fund. In the alternative, we suggest amending this language to repeal the fund. In Report No. 14-13, we recommended repeal; DBEDT agreed.

Funds that *meets* criteria would be repealed by SB 1092

Section 2 of this bill would repeal the **Captain Cook Memorial Fund** established under §6E-33, HRS. We generally support the Legislature decreasing the high number of special and revolving funds; however, in Report No. 14-01, we noted that this trust fund *meets* criteria and continues to serve the purpose for which it was originally created. Financial activity exists but is not shown due to rounding.

Section 28 would repeal the **Blind Shop Revolving and Handicraft Fund** established in the Department of Human Services under §347-12, HRS. In Report No. 10-09, we noted the revolving fund is self-sustaining and meets the criteria of a revolving fund.

Section 32 would abolish the **Commission on Fatherhood** trust account administratively established in the Department of Human Services. In Report No. 10-09, we noted the trust account is self-sustaining and meets the criteria of a trust account.

We have little to no information on funds repealed in Parts VI and X of this bill

While we support the intent of Parts, VI, and X of this bill, we have little to no information on the following funds:

1. **Food Distribution Revolving Fund** (Section 17) established in the Department of Education under §302A-1315, HRS. The last time we reviewed this fund in 2011 Report No. 11-04, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i Public Library System, and Office of Hawaiian Affairs*), we were unable to conclude whether the fund meets applicable criteria as the fund had not yet been implemented. If there has been no financial activity in the fund to date, then it is not serving the purpose for which it was originally created and its repeal is appropriate.
2. **Public Health Nursing Services Special Fund** (Section 25) established in the Department of Health under §321-432, HRS.

Thank you for this opportunity to testify in partial support of SB 1092 and to offer comments. I am available to answer any questions you may have.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Repeal of special funds

BILL NUMBER: SB 1092; HB 923 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

EXECUTIVE SUMMARY: Implements the state auditor's recommendation to repeal various special funds.

BRIEF SUMMARY: Repeals the following:

- Captain Cook memorial fund (HRS section 6E-33)
- Infrastructure development fund (HRS section 171-19.5)
- Pineapple workers and retirees housing assistance fund (HRS section 201H-85)
- Statewide geospatial information and data integration special fund (HRS section 225M-7)
- Transportation use special fund (HRS section 261D-1)
- Food distribution program revolving fund (320A-1315)
- Career and technical training projects revolving fund; UH of Hilo (HRS section 304A-2268)
- University of Hawaii alumni special fund (HRS section 304A-2175)
- Animal research farm, Waialeale, Oahu special fund (HRS section 304A-2177)
- Public health nursing services special fund (HRS section 321-432)
- Blind shop revolving and handicraft fund (HE+RS section 347-12)

Transfers the balance of the fee simple residential revolving fund into the general fund on June 30, 2015.

Abolishes the following:

- (1) The donations for voter registration drive trust account established in 1984 and administered by the department of accounting and general services;
- (2) The Hawaii FYI - ICSD trust account administratively established in 1996 and administered by the department of accounting and general services;
- (3) The parking control revolving fund escrow account administered by the department of accounting and general services;
- (4) The returned ACH tax refunds trust account administratively established in 2004 and administered by the department of accounting and general services;
- (5) The HDOA biocontrol foreign exploration special fund created in 2010 and administered by the department of agriculture;
- (6) The Hawaii EUTF self-directed investments trust account created in 2007 and administered by the department of budget and finance; and

(7) An account controlled by the state commission on fatherhood

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This is an administration measure submitted by the department of budget and finance BUF-22(15). This measure implements the state auditor's recommendation in the recently released auditor's reports that reviewed the special funds, revolving funds, trust funds, and trust accounts of the various state departments.

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.

Seconding the Commission's harsh criticism was the State Auditor's report issued in February of 1991 that recognized that the "tax is levied on the general public rather than specific beneficiaries of the program," and thus the fund did not reflect a "direct link between user benefits and user charges."

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 3/2/15