

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 2268

February 8, 2010

RELATING TO SPECIAL FUNDS

Senate Bill No. 2268 amends Section 23-12, Hawaii Revised Statutes, by expanding the State Auditor's review of revolving and trust funds to include special funds. The reviews are staggered over a five-year period and will be conducted every five years for the various agencies.

We support this bill provided that the expansion of the State Auditor's review can be accomplished without requiring additional resources. The proposed amendment will better ensure that existing special funds continue to: 1) serve the purpose for which it was originally established; 2) reflect a clear link between the benefit sought and charges made upon the users or beneficiaries of the program; 3) provide an appropriate financing mechanism for the program or operation; and 4) demonstrate that it is financially self-sustaining.

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**SUBJECT:** MISCELLANEOUS, Review of special funds

**BILL NUMBER:** SB 2268; HB 2123 (Identical)

**INTRODUCED BY:** SB by Ige and Chun Oakland; HB by Takai

**BRIEF SUMMARY:** Amends HRS section 23-12 to provide that special funds shall be included in the state auditor's review of revolving and trust funds of the state.

**EFFECTIVE DATE:** Upon approval

**STAFF COMMENTS:** Under the existing law, the state auditor is required to review the revolving and trust funds of the state and submit a report to the legislature. It should be remembered that the 1990 legislature by Act 240 required the auditor to conduct a review of all special and revolving funds and submit recommendations as to whether they should be continued, modified or repealed. While the completed reviews were submitted in 1991 and 1992, an update done in July 2001 revealed that 71 special and revolving funds had been repealed or discontinued. The auditor later found that 106 out of 166 of the special funds they reviewed were still being utilized as of July 1, 1999.

Over the last 15 years, more and more of the state operating budget has been underwritten by special funds, many of which were created during that same time period. These are other than the three special funds established long before statehood for the transportation programs of the state. For example 11.7% of the 1995-1997 biennial budget appropriated by the legislature was financed from special funds other than the transportation special funds. That portion grew to more than 17.3% of the 2007-2009 biennial budget. As a result, when those programs were moved to earmarked funding status, they freed-up more general funds that were used to finance those programs allowing lawmakers to fund brand-new programs that probably would not have been funded in the past. Not only did this process obscure the growth and size of state government, but it also allowed lawmakers to escape the governance of the constitutional general fund expenditure ceiling as this mechanism does not indicate a growth in the size of state general fund spending. Bringing both those favored programs and their earmarked sources of funding back to the general fund table will give lawmakers and taxpayers a better idea of the size of government. As a point of comparison, the 2007-2009 biennial budget special fund expenditures amounted to \$3.6 billion, a number that is more than twice the general fund shortfall forecasted for the current biennial budget.

While this measure proposes that special funds shall also be reviewed by the auditor as well, it should be noted that while HRS section 37-47 requires each state department to report on each of their non-general fund accounts to the legislature annually, the reports just contain information on the financial condition of each account. The reports can be found at: <http://bit.ly/8n2FOi>

While this measure would allow the auditor to continuously review the special funds, it may also reveal the number of new special funds added each year by the legislature and bring to light how much money is hidden in these special funds.

Digested 2/4/10



**Before the Senate  
Committee on Ways and Means**

DATE: Monday, February 8, 2010

TIME: 9:30 A.M.

PLACE: Conference Room 211

**Re: SB 2268 Relating to Special Funds**

**Testimony of Melissa Pavlicek for NFIB Hawaii**

We are testifying on behalf of the National Federation of Independent Business (NFIB) in support of Senate Bill 2268, relating to special funds.

NFIB is the largest advocacy organization representing small and independent businesses in Washington, D.C. and all 50 state capitols, with more than 1,000 members in Hawaii and 600,000 members nationally. NFIB members are a diverse group consisting of high-tech manufacturers, retailers, farmers, professional service providers and many more.

We welcome the opportunity to engage with legislators on this and other issues during this session.