

HIB 573

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
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STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 573, H.D. 1

April 2, 2009

RELATING TO EMERGENCY AND BUDGET RESERVE FUND

House Bill No. 573, H.D. 1, proposes a statutory amendment to require the Director of Finance to deposit an unspecified percentage of the general fund carryover cash surplus into the Emergency and Budget Reserve Fund within 90 days of the close of the fiscal year.

The Department of Budget and Finance concurs with the intent of the bill in setting aside excess general fund revenues in the Emergency and Budget Reserve Fund to prepare for a rainy day. Current budget difficulties clearly point out the need for the State to save and build up a financial reserve during periods of strong economic growth, to be used when there is an emergency or economic downturn. The bill provides an additional funding source for the Emergency and Budget Reserve Fund to supplement the annual deposits from the tobacco settlement. While the proposed law in House Bill No. 573, H.D. 1, makes explicit the requirement to save a percentage of surplus general fund revenues, it is not self-executing. The Legislature must still make an appropriation for the deposit.

We support this bill with reservation. We believe that:

- a. Deposits into the Emergency and Budget Reserve Fund, as savings for a rainy day, should be made only when the general fund balance exceeds a certain level determined as prudent for the State to meet its operating and cash flow requirements. Therefore,

we recommend that deposits into the Emergency and Budget Reserve Fund be considered only when the general fund balance is above 5% of general fund revenues at the end of the fiscal year.

- b. Consideration should be given to how the proposed savings in the Emergency and Budget Reserve Fund will affect the current constitutional requirement that a tax refund be given when the general fund balance exceeds 5% of general fund revenues in two consecutive years.

We recommend a framework that will provide for both a tax refund and mandatory savings in the Emergency and Budget Reserve Fund when certain conditions relating to general fund excess revenues are met.