

HB 573

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

March 19, 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.



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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State Senate
Committee on Ways and Means

Testimony by
Hawaii Government Employees Association
March 19, 2009

H.B. 573, H.D. 1 – RELATING TO
EMERGENCY AND BUDGET
RESERVE FUND

The Hawaii Government Employees Association supports the general purpose and intent of H.B. 573, H.D. 1. This proposed legislation would amend Section 328L-3, HRS, by requiring that when the state general fund balance at the close of any fiscal year represents a carryover cash surplus, the state Director of Finance must deposit an unspecified percentage of the balance into the emergency budget and reserve fund.

We do not necessarily agree that the amount should be equal to 15% of the carryover cash surplus as in H.B. 573, but we do believe dedicating a certain percentage to the emergency budget and reserve fund makes good sense.

When the capacity to generate revenue is strong, the state should save at least some of the surplus for use when revenue generation is weak. Passage of this bill will provide more flexibility to access needed funds to balance the budget while also providing better planning to address cycles of economic growth and decline.

Many states have successfully used rainy day funds to as a cushion against fluctuations in economic and business cycles.

Thank you for the opportunity to testify in support of H.B. 573, H.D. 1.

Respectfully submitted,

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SUBJECT: MISCELLANEOUS, Deposit into emergency and budget reserve fund

BILL NUMBER: HB 573, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 328L-3 to provide that whenever the state general fund balance at the close of any fiscal year represents a carryover cash surplus, the director of finance shall deposit ___% of the balance into the emergency and budget reserve fund.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: The proposed measure would require the transfer of ___% of any carryover cash surplus in the general fund, at the end of a fiscal year, into the emergency and budget reserve fund.

The emergency budget and reserve fund was a recommendation of the 1990 Tax Review Commission which noted that one of the reasons policy makers used in deflecting past attempts to reduce the overall level of taxes in Hawaii was that the high level of taxes provides a cushion against an economic downturn. It should be noted that the emergency budget and reserve fund was viewed as a source of funding in the event of a natural disaster or some unforeseen crisis. It was not intended to supplement ongoing program funding when current resources are not available. However, Act 304, SLH 1999, provided that one of the purposes for which appropriations from the fund could be made is to maintain levels of programs determined to be essential to public health, safety and welfare.

If this measure is approved, it would mandate a transfer of a specific percentage of any carryover cash surplus of general funds into the emergency and budget reserve fund, even though such excess general funds may be necessary to meet outstanding obligations of the state. There is absolutely no sound reason for this amendment other than it would allow lawmakers to "hide" general fund cash in the name of putting money in the rainy day fund. This would allow lawmakers to pare what would be left at the end of a fiscal year to avoid the possibility that the general fund balance would exceed 5% of general fund revenues realized.

If the intent of this measure is to insure lawmakers put savings aside for unforeseen situations, such as the current financial crisis, then provisions should be added to first ascertain whether or not the surplus at the end of the year triggers the constitutional mandate for the refund of excess moneys in the general fund balance and some sort of ceiling should be set for the amount set aside in the emergency and budget reserve fund such as a percentage of general fund revenues received in the prior three years.

Digested 3/18/09