

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1819

February 28, 2012

RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND

House Bill No. 1819 amends Section 328L-3(a)(3) and increases the amount to be transferred from the general fund to the Emergency and Budget Reserve Fund from 5 percent to 30 percent whenever State general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5 percent. In addition, this bill requires that 30 percent of the funds transferred shall be used to address any unfunded liability of the Employer-Union Health Benefits Trust Fund.

The department supports the intent of this bill to provide for additional funds for the Emergency and Budget Reserve Fund and to address the unfunded liability for Other-Post-Employment-Benefits (OPEB) of the Employer-Union Health Benefits Trust Fund. The department recognizes the importance of maintaining adequate reserves as a point of sound financial management and the positive affect such action would have on the State's bond ratings. In addition, the growing OPEB liability is a concern shared throughout the State that will undoubtedly require action. However, there is uncertainty about the impact of implementing the provisions of this bill given the State's projected general fund balances.

For example, based on the January 9, 2012 projections of the Council on Revenues, State general fund revenues (tax and non-tax revenues) are expected to grow by 5.2% and 5.8% in FYs 12 and 13, respectively. Thus, the criteria for transferring a percentage of the State general fund balance will have been met; however, in FY 14, our projected general fund balance is -\$164.2 million.

This bill is planned in its approach to develop a means and measure that starts to address the development of reserves and address unfunded liabilities. We need to work together to understand the impact and implications on the financial plan - especially, in light of current and anticipated financial conditions of the State. While the solution is not likely to be positive all-around, we recognize that the bill is strategic in implementing a financial structure to deal with these long standing problems.

We look forward to working with the Legislature on these important matters and would welcome the opportunity to further explore the potential for solutions.

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SUBJECT: MISCELLANEOUS, Increase deposit into emergency and budget reserve fund

BILL NUMBER: HB 1819

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 328L-3 to increase the amount transferred into the emergency and budget reserve fund from 5% to 30% when the state general fund balance at the close of any two years represents a carryover cash surplus provided that the 30% shall be used to address any unfunded liability of the employer-union health benefits trust fund.

The amendment made by section 1 of this act shall not be repealed when HRS section 328L-3 is reenacted on June 30, 2015 pursuant to Act 119, SLH 2009, as amended by Act 138, SLH 2010.

EFFECTIVE DATE: June 30, 2012

STAFF COMMENTS: The legislature by Act 138, SLH 2010, provided that 5% of the general fund balance at the end of a fiscal year shall be transferred into the emergency and budget reserve fund whenever state general fund revenues, for each of two successive fiscal years, exceeds revenues for each preceding fiscal year by 5%. Transfers shall not be made to the fund when the balance in the emergency and budget reserve fund is equal to or more than 10% of general fund revenues for the preceding fiscal year.

This measure proposes to increase the amount transferred to the emergency and budget reserve fund from 5% to 30%, and provide that the amount attributable to the 30% be used to address any unfunded liability of the employer-union health benefits trust fund. It appears that it would be premature to increase the amount of the transfer without examining how the provision will work when a surplus of general fund revenue occurs.

For example, the newly approved constitutional amendment requires either a tax refund OR a deposit be made into the emergency and budget reserve fund. No doubt, lawmakers would rather keep their hands on the money and opt for the deposit into the emergency and budget reserve fund. Currently, general fund receipts run about \$5 billion annually. So in order to trigger the constitutional provision, the general fund receipts of the general fund would have to grow by 5% in each of the next two years to \$250 million in the first year and by \$512 million in the second year. Then should there be a balance at the close of the second year, 5%, or as this measure proposes 30%, could be deposited into the emergency and budget reserve fund. Again, this new provision depends on the growth in general fund revenues and whether or not revenues will have exceeded expenditures in the second year such that there is a cash balance.

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Further, since Act 138 sets a cap of 10% of annual general fund revenues that could be held in the fund, the total amount that could be held in the fund would be a half billion dollars. Thus, it will be a very long time before lawmakers are forced to refund any excess revenues. While that may hold a dour outlook for taxpayers, it is also a substantial amount of money to hold in reserve, making it even more difficult for lawmakers to ignore calls for tax reductions. This was the point made by the 1989 Tax Review Commission which recommended the establishment of such a fund. It would seem more practical to wait and see if the current provision is triggered and the kind of money that would be involved before deciding to enlarge the amount of money that could be taken into the emergency and budget reserve fund.

Digested 2/3/12