

NEIL ABERCROMBIE
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P. O. Box 339
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February 9, 2012

TO: The Honorable John M. Mizuno, Chair
House Committee on Human Services

FROM: Patricia McManaman, Director

SUBJECT: **H.B. 1901 – RELATING TO THE GENERAL EXCISE TAX**
Hearing: Thursday, February 9, 2012; 8:30 a.m.
Conference Room 329, State Capitol

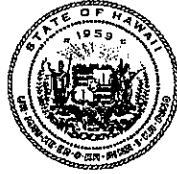
PURPOSE: The purpose of H.B.1713 is to require that an unspecified amount of general excise tax remittances be deposited into the general fund and used to fund Medicaid programs.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of the bill to support the Medicaid program. We defer to the Departments of Budget and Finance and Taxation as to the feasibility of this proposal.

Thank you for the opportunity to provide testimony on this bill.

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To: The Honorable John M. Mizuno, Chair
and Members of the House Committee on Human Services

Date: Thursday, February 9, 2012
Time: 8:30 A.M.
Place: Conference Room 329, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1901, Relating to the General Excise Tax

The Department of Taxation (Department) appreciates the intent of H.B. 1901, but will defer to the Department of Budget and Finance as to whether these amendments propose the most appropriate method to fund Medicaid programs.

H.B. 1901 amends Section 237-31, Hawaii Revised Statutes, by adding subsection (4), which would propose an undetermined funding level for Medicaid programs, effective July 1, 2012.

Thank you for the opportunity to provide comments.

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON HUMAN SERVICES
ON
HOUSE BILL NO. 1901

February 9, 2012

RELATING TO THE GENERAL EXCISE TAX

House Bill No. 1901 requires that an unspecified amount of general excise tax remittances be deposited into the general fund and be used to fund Medicaid programs.

The Department of Budget and Finance opposes House Bill No. 1901 as it earmarks general fund revenues for a specific program or activity, in this case Medicaid. We strongly believe that it would be more appropriate to fund Medicaid via the budget process, which allows the Executive Branch and the Legislature to evaluate the funding requirements for Medicaid against other statewide budget priorities and available resources.

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SUBJECT: GENERAL EXCISE, Disposition for Medicaid programs

BILL NUMBER: HB 1901

INTRODUCED BY: Mizuno

BRIEF SUMMARY: Amends HRS section 237-31 to earmark \$_____ of all general excise tax revenues to be expended for Medicaid programs.

EFFECTIVE DATE: July 1, 2012

STAFF COMMENTS: The proposed measure would earmark general excise tax revenues to be expended for medicaid programs.

If this measure were adopted, it would prioritize these funds for the Medicaid program ahead of all other general fund funded programs and result in less general funds available for other programs and services. In addition, the danger in adopting this measure is that it may spawn additional requests for other "creative" accounting through the earmarking of general excise tax revenues. In addition, the automatic funding mechanism proposed in this measure would set aside general excise tax revenues without going through the appropriation process and, most importantly, without legislative scrutiny or intervention.

More importantly, because the general excise tax revenues are earmarked for this purpose, the question is whether or not the sum set aside will be appropriated as general funds and thus will it be counted again the constitutional general fund expenditure ceiling? Further, because the amount is designated for this purpose, will the taxpaying public know that this contribution is coming at the expense of all other programs or will it prompt a call for an increase in taxes so that Medicaid programs and all other programs be funded?

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. It was only 1989 when lawmakers approved earmarking \$90 million for educational facilities as the "commitment" to education and only three years later they took back the earmarking because general fund revenues started to dwindle. Further, rather than spurring on construction of classrooms, the earmarking merely created apathy as school officials knew they would receive \$90 million off the top and they didn't have to justify a request for funding. Lawmakers should go back and read a little of their own history and learn from their mistakes.

While this proposal may look prudent in setting aside money into a special account within the general fund, it can and probably will affect the general fund cash flow, putting the state in the possible precarious position of not being able to pay its bills or pay its employees or the worst case scenario not being able to meet its repayment of debt. The state was in such a position a few years ago when an accounting error double counted tax collections because those collections from delinquent taxpayers

HB 1901 - Continued

were set out separately in one column and again included in the grand totals. Setting off amounts to meet certain standing obligations reduces the flexibility of state budget officials in managing the state's financial condition. Such earmarking usurps the responsibility the legislature has in setting priorities for taxpayer dollars both in the here and now and well into the future as long as the earmarking exists. Will future legislatures find the Medicaid program to be of such a high priority as say education or domestic violence programs?

Digested 2/8/12

Testimony for HUS 2/9/2012 8:30:00 AM HB1901

Conference room: 329

Testifier position: Support

Testifier will be present: No

Submitted by: Scott Wall

Organization: Individual

E-mail: robertscottwall@yahoo.com

Submitted on: 2/7/2012

Comments: