

TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 564

February 15, 2011

RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND

We support the general intent of establishing a mechanism for the State to set aside excess revenues, from periods of economic growth, to a fiscal reserve that would be available to support the State's financial obligations during periods of economic difficulty.

House Bill No. 564 implements that constitutional amendment by amending Section 328L-3, Hawaii Revised Statutes, to increase the percentage from five percent to ten percent of the general fund balance at the close of the fiscal year, whenever the State's general fund revenues for each of two successive fiscal years exceeds general fund revenues for each of the preceding fiscal years, to be deposited to the Emergency and Budget Reserve Fund.

An amendment to Article VII, Section 6 of the Hawaii Constitution was passed and ratified in the 2010 General Election. The Constitution was amended to provide the Legislature the authority to make a deposit to one or more funds, as provided by law, whenever the State general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the preceding fiscal years. The deposit will serve as a temporary supplemental source of funding for the State in times of an emergency, economic downturn, or unforeseen reduction in revenue.

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

**BILL NUMBER:** HB 564

**INTRODUCED By:** Chong, M. Lee, B. Oshiro, Say, Yamashita

**BRIEF SUMMARY:** Amends HRS section 328L-3 to increase the amount transferred into the emergency and budget reserve fund from 5% to 10% when the state general fund balance at the close of any two years represents a carryover cash surplus.

The amendment made by section 1 of this act shall not be repealed when HRS section 328L-3 is reenacted on June 30, 2015 pursuant to Act 119, SLH 2009.

**EFFECTIVE DATE:** June 30, 2011

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

While Act 138 took effect on July 1, 2010, this measure proposes to increase the amount transferred to the emergency and budget reserve fund from 5% to 10%. 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 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 balance would have to be at least \$250 million of which 10%, as proposed under this measure, or \$25 million would be deposited into the emergency and budget reserve fund. Since last year's legislation set 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.

Digested 2/14/11