

SB2348

State Education Facilities
Improvement Special Fund
EDU, WAM

Date: 02/06/2012

Committee: Senate Education

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 2348 RELATING TO THE STATE EDUCATIONAL FACILITIES IMPROVEMENT SPECIAL FUND.

Purpose of Bill: Repeals the state educational facilities improvement special fund.
Remaining funds lapse to the general fund.

Department's Position: The Department is **opposed** to this bill.

Section 2 of the bill repeals the State Educational Facilities Improvement (SEFI) Special Fund. SEFI funds school facility development and improvements projects appropriated by the Legislature and allocated by the Governor. The source of funds has been general obligation bond proceeds. The Legislature has shown its support of school facility improvements by committing at least \$45 million of bond proceeds or tax revenues into this fund. This fund has afforded the Department both greater funding predictability that supports long-range planning and greater flexibility in maximizing the use of appropriated funds via the SEFI project adjustment fund. In 1996 both the Legislature and voting public supported efforts to improve school facilities by inserting into Article VII, Section 11 of the State Constitution the following, "appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities." In addition, if the SEFI is abolished it may be improper to deposit general obligation bond proceeds to the credit of the general fund. The Department asks that these commitments to support

school facility development and improvement be maintained by retaining
Section 36-32, Hawaii Revised Statutes.

Thank you for the opportunity to testify on this measure.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
ON
SENATE BILL NO. 2348

February 6, 2012

RELATING TO THE STATE EDUCATIONAL FACILITIES IMPROVEMENT SPECIAL FUND

Senate Bill No. 2348 repeals the State Educational Facilities Improvement Special Fund effective July 1, 2013, and provides that any funds remaining in the State Educational Facilities Improvement Special Fund shall lapse to the general fund on July 1, 2014.

The Department of Budget and Finance supports this bill. We recognize there are operational advantages for the Department of Education to maintain this fund, but the Department of Budget and Finance takes the position that the original intent and financial benefit of the Fund no longer exists.

Act 368, SLH 1989, established the State Educational Facilities Improvement Special Fund and provided \$90 million in general excise tax revenues each year from 1989 to 1995 to be deposited to the credit of the State Educational Facilities Improvement Special Fund. Act 364, SLH 1993, subsequently allowed the State Educational Facilities Improvement Special Fund to be funded with proceeds from the sale of general obligation bond funds. Act 110, SLH 1999, reduced the amount to be deposited into the State Educational Facilities Improvement Special Fund from \$90 million per fiscal year to \$45 million per fiscal year.

Over the years, capital improvement projects appropriated for education facilities have generally been authorized and funded with State Educational Facilities Improvement Special Funds, which are then 100% supported through general obligation bond funds. We recognize the need to address the maintenance and upgrades of educational facilities; however, given the economic condition of the State and concerns on national funding support levels, we must address our funding requirements within available funding resources. Thus, capital improvement project requests by departments should be reviewed on a statewide basis and allocated to programs based on statewide priorities.

As the general excise tax revenues are no longer used to fund State educational facilities improvements, and the Department of Education's capital improvement project requests are generally supported 100% with general obligation bonds, the Department of Education's capital improvement projects should be funded directly with general obligation bonds rather than through the State Educational Facilities Improvement Special Fund. Thus, the purpose of the State Educational Facilities Improvement Special Fund is no longer necessary. For this reason, the Department of Budget and Finance supports the repeal of this fund.

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SUBJECT: MISCELLANEOUS, Repeal the state educational facilities improvement special fund

BILL NUMBER: SB 2348

INTRODUCED BY: Ige

BRIEF SUMMARY: Repeals HRS section 36-32 which established the state educational facilities improvement special fund. Any remaining moneys in the fund or the lease payment for schools account shall lapse to the general fund on July 1, 2014.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: The earmarking of general excise tax revenues and the creation of the state educational facilities improvement special fund were established more than a decade ago when the state general fund was flush with cash surpluses. While the rationale was to secure dedicated funding for educational facilities, the real intent of this provision was to hide those surplus funds from public scrutiny creating the illusion that there was no surplus. However, when the economy turned sour as the Japanese bubble burst, lawmakers took back the general excise tax revenues and replaced the funding source with the proceeds of bond sales. The level of earmarking at the time was \$90 million. However, when pressed for an estimate of how much the department could reasonably undertake in the construction of facilities, it was discovered that the department could only handle about \$45 million in projects each year. The level of earmarking was thus reduced to \$45 million in 1999 and increased to \$90 million in 2006.

While this measure proposes to repeal the state educational facilities improvement special fund, the provisions earmarking bond proceeds for this fund under HRS section 237-31 should also be repealed. Even the 1989 Tax Review Commission noted that use of this type of special fund financing is a “departure from Hawaii’s sound fiscal policies and should be avoided.” It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

Seconding the Commission’s harsh criticism was the State Auditor’s report issued in February of 1991 that recognized that the “tax is levied on the general public rather than specific beneficiaries of the program,” and thus the fund did not reflect a “direct link between user benefits and user charges.” The Auditor recommended that the fund be repealed and that educational facilities should be funded through the normal capital improvements appropriations process. Rather than perpetuating the improper use of special funds, the legislature should take the advice of the Auditor and repeal the state educational

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facilities improvement special fund. Now, more than ever, lawmakers should repeal the automatic funding mechanism and make administrators justify their expenditures for the construction of educational facilities or explain their inability to do so.

This would force the board and department of education to deliver these repairs on a timely basis or explain why they could not do the necessary repairs and maintenance. With the automatic earmarking, there is no reason to return each year to the legislature and be held accountable for the lack of action. This is called accountability.

Digested 2/2/12