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**HOUSE COMMITTEE ON
FINANCE**

**Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair**

**March 30, 2012
4:00 pm Room 308**

**Testimony in SUPPORT on SB 2784 SD2
Making Appropriations to Recapitalize State Fiscal Reserves**

Chair Oshiro, Vice-Chair Lee, members of the Finance Committee:

The Office of the Governor is in strong support of Senate Bill 2784, Senate Draft 2, Making Appropriations to Recapitalize State Fiscal Reserves. This measure appropriates general funds to recapitalize the Emergency and Budget Reserve Fund ("Rainy Day Fund") and the Hawaii Hurricane Relief Fund.

Recapitalizing these reserve funds is fiscally prudent, and should resonate favorably with the bond rating agencies. The exact amounts and timing of the recapitalization are somewhat variable, but the Administration feels that a meaningful amount of money for recapitalization should be appropriated.

The Department of Budget and Finance can answer any technical questions you may have.

Thank you for this opportunity to testify.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2784, S.D. 2

March 30, 2012

MAKING APPROPRIATIONS TO RECAPITALIZE STATE FISCAL RESERVES

Senate Bill No. 2784, S.D. 2, appropriates general funds to recapitalize the Emergency and Budget Reserve Fund and the Hawaii Hurricane Relief Fund.

Prolonged effects of the economic downturn have led to the near depletion of the State's reserve funds, including the Emergency and Budget Reserve Fund and the Hawaii Hurricane Relief Fund. FY 11 beginning balances were \$62.5 million and \$188.2 million for the Emergency and Budget Reserve Fund and Hawaii Hurricane Relief Fund, respectively. Adjusted FY 11 ending balances (adjusted to accommodate all of the transfers authorized by Acts 25 and 62, SLH 2011) were \$5.5 million and \$8.8 million, respectively. The low fund balances are not fiscally prudent and have caught the attention of State bond investors and bond rating agencies. Both of these funds are identified as State reserves. The State's financial plan currently includes recapitalization of a total of \$174.7 million over FY 12 and FY 13 (\$75 million in FY 12 and \$99.7 million in FY 13). This measure proposes to recapitalize the \$174.7 million over three unspecified fiscal years.

However, it should be noted that with the recent changes in the Council on Revenues' forecasts (a 3% drop in the January 9, 2012 forecast and a 0.5% increase in the March 9, 2012 forecast) and the uncertainty in the economy and revenue

collections, the Administration recognizes that it may be necessary to amend the amounts of the recapitalization plan as well as the funding timetable. The Administration desires to work with the Legislature to arrive at a mutually agreeable recapitalization rate and period for both of these reserves; however, we would strongly advise that for the interest of demonstrating credit worthiness and stability that some level of recapitalization begin within this fiscal biennium. We will be monitoring the progress of revenue collections and updates of revenue projections and advise you of any necessary revisions to the recapitalization amounts.