

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 661, H.D. 1

February 21, 2013

RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND

House Bill No. 661, H.D. 1, appropriates \$200,000 for FY 2013-14 from the Emergency and Budget Reserve Fund (EBRF) to the Department of Human Services (DHS) for child abuse and neglect services.

The Department of Budget and Finance defers to the DHS on appropriate funding requirements for child abuse and neglect services; however, we **strongly oppose** any appropriation from the EBRF at this time. We believe that both the Executive and Legislature needs to demonstrate restraint in spending the State's scarce fiscal reserves. The State has historically - especially over the last decade - been responsible in the way it accesses the EBRF to fund a number of social grants and governmental programs. The current Administration has worked hard over the last two years to build the State's financial condition to the degree that utilizing EBRF reserves are less critical or necessary - this is especially true in light of the improved fiscal condition of the general fund.

Since 2008, extreme measures have had to be taken to keep the State solvent, including: furloughs; temporary salary reductions; reductions-in-force; downsizing of programs and services; purchasing and hiring freezes; and enactment of temporary revenue enhancements. Additionally, most of the State's fiscal reserves, the EBRF and the Hawaii Hurricane Relief Fund, were committed to forestalling even greater spending reductions and revenue enhancement measures.

While the measures undertaken over the years utilizing the EBRF were arguably necessary within the context of resources that were available to the State, one of the clear lessons learned from this experience is the necessity of having sufficient fiscal reserves to help carry the State through the worst conditions. While the purpose of having reserves is to provide a fiscal safety net during difficult economic down-cycles for the State, there are ramifications for utilizing such reserves. The State of Hawaii was downgraded in May of 2011 by Moody's Rating Service citing - among a number of reasons - the State's lowly funded reserves. Now that the economy is rebounding and more revenues are available, a concerted effort must be made to recapitalize the State's depleted fiscal reserves as expeditiously as possible. However, of equal importance is for the State to demonstrate discipline and resolve to only access its reserves under dire and severe circumstances. We do not believe such is the case and House Bill No. 661, H.D. 1, is counter to any demonstration of fiscal restraint. If the Legislature or Executive wants to fund the programs contemplated in House Bill No. 661, H.D. 1, it should do so via available general funds instead of the EBRF.

Starting in Fiscal Year 2013-14, transfers from the tobacco settlement moneys into the EBRF will resume. As is fiscally prudent, the Administration is proposing in House Bill No. 863 to further accelerate recapitalization of the EBRF by transferring an additional \$25 million of general funds to it. This will bring the projected Fiscal Year 2014-15 balance of the EBRF up to \$64 million (assuming no appropriations during the period).

Authorizing new EBRF appropriations at this time would be counterproductive to the Administration's efforts to expeditiously recapitalize the EBRF.



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 21, 2013

MEMORANDUM

TO: The Honorable Sylvia Luke, Chair
House Committee on Finance

FROM: Patricia McManaman, Director

SUBJECT: **H.B. 661, H.D.1 - RELATING TO THE EMERGENCY AND BUDGET
RESERVE FUND**

Hearing: Thursday, February 21, 2013; 11:00 a.m.
Conference Room 308, State Capitol

PURPOSE: The purpose of H.B. 661, H.D.1, is to appropriate moneys from the emergency and budget reserve fund to the Department of Human Services (DHS) for child abuse and neglect social services.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of this bill, but we are concerned about the cost implications and the adverse impacts on the priorities in the Executive Biennium Budget. We respectfully request your support for the priorities indicated in the Executive Biennium Budget.

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