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Testimony in **support** of SB1092 SD1
Making an Appropriation to Recapitalize the Hurricane Reserve Trust Fund

Committee on Finance
Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice Chair
Representative Aaron Johanson, Vice Chair

March 14, 2013
2:00 pm Room 308

Chair Luke, Vice-Chair Nishimoto, Vice-Chair Johanson, and members of the Finance Committee:

The Office of the Governor **supports** Senate Bill 1092, Senate Draft 1, Making an Appropriation to Recapitalize the Hurricane Reserve Trust Fund ("Fund"). This measure appropriates general funds to shore up Hawaii's fiscal reserves.

As Hawaii emerges from one of the most challenging economic periods in its history, it is clear that having sufficient fiscal reserves can help carry the State through difficult economic times. Now that the economy is rebounding and more resources are available, a concerted effort must be made to recapitalize the State's depleted fiscal reserves.

While Act 62, Session Laws of Hawaii 2011, mandates the return of the money borrowed from the Fund, this measure (SB1092) appropriates additional funds to further shore up Hawaii's fiscal reserves.

We note that as introduced, the bill appropriated \$25,000,000, although that amount is blank in the Senate Draft.

Thank you for the 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. 1092, S.D. 1

March 14, 2013

MAKING AN APPROPRIATION TO RECAPITALIZE THE HURRICANE RESERVE TRUST FUND

Senate Bill No. 1092, S.D. 1, appropriates an unspecified amount in general funds in Fiscal Year 2014-15 to further recapitalize the Hurricane Reserve Trust Fund.

The Department of Budget and Finance strongly supports this Administration bill. This bill, along with Senate Bill No. 1094, Making an Appropriation to the Emergency and Budget Reserve Fund, are the two Administration measures aimed at further rebuilding the State's fiscal reserves. We respectfully request that the Committee reinstate the original \$25 million in Senate Bill No. 1092.

Since 2008, the State of Hawaii has had to implement a number of extreme fiscal measures in order to keep the State solvent, including: furloughs; temporary salary reductions; reductions-in-force; forced downsizing of programs and services; purchasing and hiring freezes; and enactment of temporary revenue enhancements. Additionally, most of the State's fiscal reserves, the Emergency and Budget Reserve Fund and the Hawaii Hurricane Relief Fund, were committed to forestalling even greater spending reductions and revenue enhancement measures. In May of 2011, the credit rating of the State of Hawaii was downgraded by Moody's Rating specifically citing - among other reasons - the State's low reserve levels.

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. 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. Although the title of this Fund suggests a limited purpose; in fact, the HHRF is viewed by investors and credit agencies as one of the State's few true reserves.

Act 62, SLH 2011, which authorized use of the Hawaii Hurricane Relief Fund to support the general fund, requires that one-half of the total amount of funds transferred to the general fund (\$111 million) in fiscal year 2010-11 shall be repaid from general excise tax revenues to the Hawaii Hurricane Relief Fund in fiscal years 2013-14 and 2014-15. As such, \$55.5 million will be deposited into the Hawaii Hurricane Trust Fund each year for fiscal years 2013-14 and 2014-15. As is fiscally prudent, this bill proposes to further accelerate recapitalization of fiscal reserves by transferring an additional unspecified amount (\$25 million was requested by the Administration) to the Hawaii Hurricane Relief Fund in fiscal year 2014-15. This will bring the projected fiscal year 2014-15 balance of the Hawaii Hurricane Relief Fund up to at least \$132 million (\$157 million with the \$25 million requested by the Administration).