LATE

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2519

January 29, 2014

RELATING TO THE GENERAL FUND EXPENDITURE CEILING

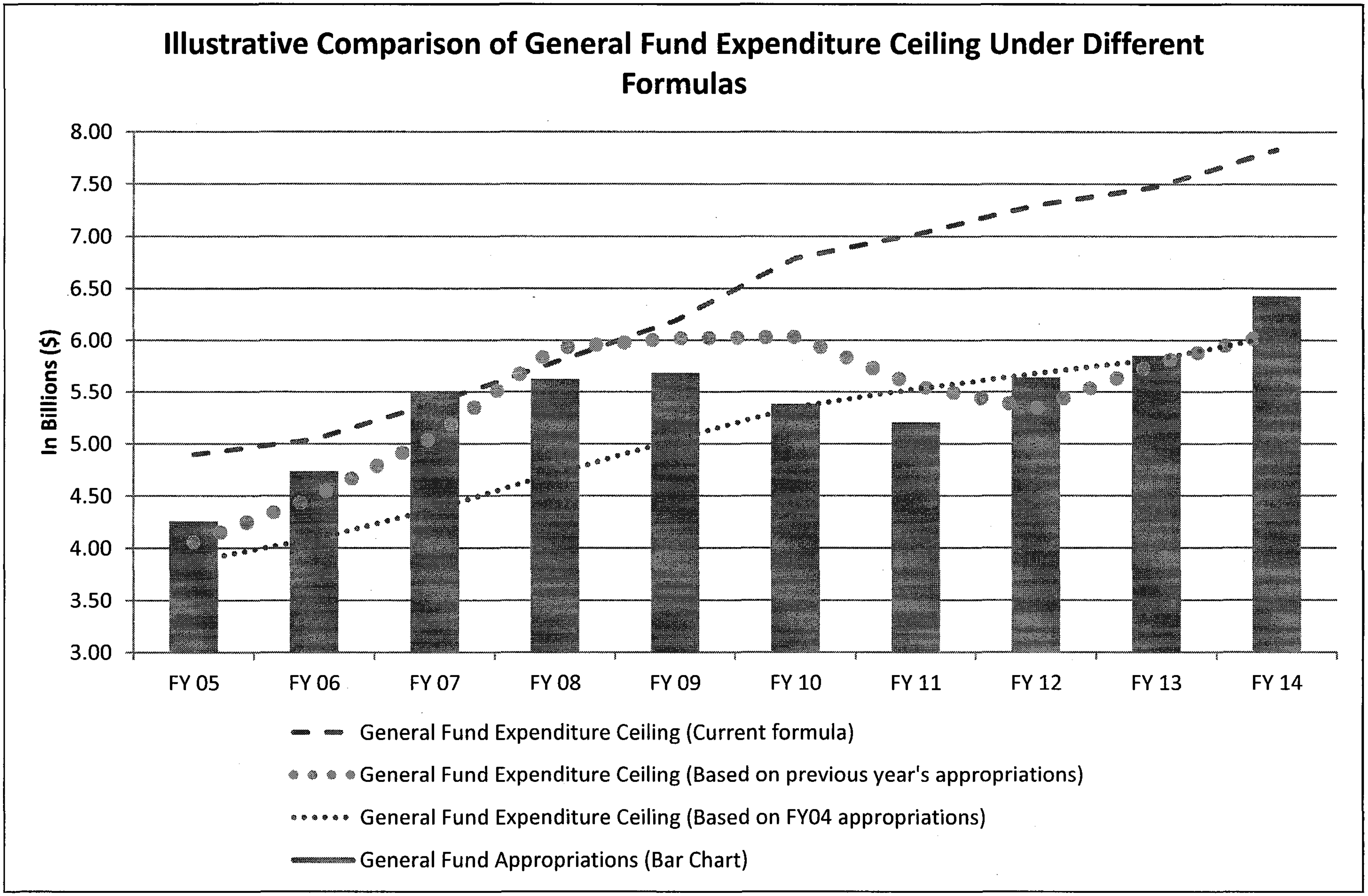
Senate Bill No. 2519 amends Section 37-91, HRS, to revise the formula for computing the general fund expenditure ceiling. The current general fund expenditure ceiling formula uses total FY 1979 general fund appropriations as the initial expenditure ceiling base and the expenditure ceiling for each succeeding fiscal year is calculated by applying the state growth rate (which is based on total personal income growth) to the prior fiscal year's expenditure ceiling. This bill proposes to revise the formula by applying the state growth rate to the prior fiscal year's total general fund appropriations instead. The revised formula would be similar to the formula for calculating the appropriation ceilings for the Executive and Judicial Branches.

The Department of Budget and Finance does not take a position on revising the expenditure ceiling formula. For the Committee's information, we have done an illustrative comparison of the expenditure ceiling based on the current and revised formulas going back ten fiscal years using FY 2004 as the starting point. We also included in this comparison another option to re-benchmark the current general fund expenditure ceiling formula to a more recent fiscal year (e.g., use total FY 2004 general fund appropriations as the base, rather than total FY 1979 general fund appropriations, and apply the state growth rate on a ceiling-to-ceiling basis as in the current formula). The results of this comparison are shown in Attachment 1.

As can be seen, under the current formula (dashed line), total appropriations (vertical bar) exceeded the expenditure ceiling only in FY 2007; otherwise total appropriations have, especially in recent years, been considerably lower than the expenditure ceiling. Under the revised formula proposed in Senate Bill No. 2519 (large dots), total appropriations would have exceeded the expenditure ceiling in FYs 2005, 2006, 2007, 2012, 2013 and 2014. Under the re-benchmarked current formula (small dots), total appropriations exceeded the expenditure ceiling in all fiscal years except FYs 2011 and 2012. Be advised that the formula proposed in this bill creates a condition where legislative appropriations and the amount of funding for state programs would have exceeded the limit for the general fund budget.

We would also like to point out that the proposed revised formula using total appropriations creates a fluctuating expenditure ceiling that would vacillate as changes (either positive or negative) are made to the prior year's total appropriations. For example, if there was a large shortfall in the MedQUEST program in the current fiscal year of the legislative session and an emergency appropriation was authorized, then the expenditure ceiling for the next fiscal year would rise correspondingly. The converse would happen if the current fiscal year's appropriation was reduced.

Attachment


Illustrative Comparison of General Fund Expenditure Ceiling Under Different Formulas
In Billions ($)
8.00
7.50
7.00
6.50
6.00
5.50
5.00
4.50
4.00
3.50
3.00
FY 05
FY 06
FY 07
FY 08
FY 09
FY 10
FY 11
FY 12
FY 13
FY 14
General Fund Expenditure Ceiling (Current formula)
General Fund Expenditure Ceiling (Based on previous year's appropriations)
General Fund Expenditure Ceiling (Based on FY04 appropriations)
General Fund Appropriations (Bar Chart)

L E G I S L A T I V E

TAXBILLSERVICE

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SUBJECT: MISCELLANEOUS, General fund expenditure ceiling

BILL NUMBER: SB 2519

INTRODUCED BY: Ige

BRIEF SUMMARY: Amends HRS section 37-91 to provide that beginning with the 2015-2016 fiscal year, the general fund expenditure ceiling shall be computed by adjusting the total general fund appropriation for the immediate prior fiscal year by the applicable state growth.

When a revision is made to total state personal income for any of the three calendar years immediately preceding a fiscal year that has already elapsed or is in progress when the revision is officially published, the revision shall not change the expenditure ceiling for that fiscal year, but shall be used to compute the expenditure ceiling for any subsequent fiscal year. A revision shall be deemed "officially published" when initially published by the U.S. Department of Commerce, Social and Economic Statistics Administration, Bureau of Economic Analysis, or submitted in writing to the governor by the council on revenues.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes that the general fund expenditure ceiling shall be computed by using the general fund appropriation of the previous fiscal year, rather than the prior year's general fund ceiling. If approved, the change would be effective beginning with the fiscal 2015-2016 year.

The 1978 Constitutional Convention established the general fund expenditure ceiling based on the estimated growth of the state's economy. Act 277, SLH 1980, the enabling legislation, defined the growth of the state's economy as the rate of increase in total state personal income averaged over the preceding three calendar years. The issue of whether that definition is still a good measure of economic growth after 30 years of use is a worthy one to debate. Consideration might be given having the next tax review commission or a study group review the ramifications of the proposed change prior to adoption of this measure as proposed.

Digested 1/24/14