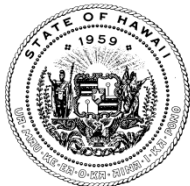


DAVID Y. IGE
GOVERNOR



Testimony of
FORD N. FUCHIGAMI
DIRECTOR

Deputy Directors
JADE T. BUTAY
ROSS M. HIGASHI
EDWIN H. SNIFFEN
DARRELL T. YOUNG

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
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(808) 587-1965

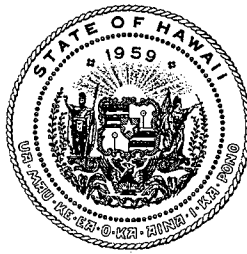
March 24, 2015
9:00 a.m.
State Capitol, Room 211

H.B. 173, H.D. 1
RELATING TO THE REPEAL OF FUNDS AND ACCOUNTS

Senate Committee on Ways and Means

The Department of Transportation **supports** this bill, which abolishes the transportation use special fund, which no longer serves the purposes for which it was created.

Thank you for the opportunity to provide testimony.



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON HOUSE BILL NO. 173, HOUSE DRAFT 1
RELATING TO THE REPEAL OF FUNDS AND ACCOUNTS**

Senate Committee on Ways and Means

March 24, 2015

Chair Tokuda and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for this opportunity to testify in support of House Bill 173, House Draft 1 (HB 173, HD 1), which would repeal and transfer the unencumbered balances of various funds and accounts to the credit of the general fund.

In 2014, we released Report No. 14-05, wherein we reviewed the non-general funds and accounts of the Department of Transportation (DOT). Our review includes an evaluation of the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). We do not conclude about the effectiveness of programs and their management; however, for special and revolving funds, we conclude on the need for the fund based on the purpose and scope of the program it supports. This bill would implement many of our report recommendations.

Funds that *do not meet* criteria would be repealed or abolished by HB 173, HD 1

We support repealing or abolishing funds in DOT that *do not meet* criteria:

1. **Amtrak Trust Account** (Section 4), administratively created in DOT–Administration, but no longer serves the purpose for which it was created; DOT agreed to close the

account. While we support repeal of the account, DOT was expected to transfer \$38,000 in interest income for eventual repayment to the federal source; hence, lapsing any remaining balances in this trust account to the general fund may not be appropriate. We suggest that your Committee consider amending Sections 4 and 5 accordingly.

2. **Hurricane Iniki Insurance Proceeds** special fund (Section 4), administratively created in DOT–Administration. We recommended repeal; DOT agreed.

3. **Deposits—Plans and Specifications** trust account (Section 4), administratively created in DOT–Highways. The trust account no longer serves the purpose for which it was created; DOT agreed to close the account.

Thank you for this opportunity to testify in support of HB 173, HD 1. I am available to answer any questions you may have.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Repeal non-general funds

BILL NUMBER: HB 173, HD-1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Repeals various non-general funds including special funds, revolving funds, trust funds, and trust accounts, all in accordance with the State Auditor's recommendations.

BRIEF SUMMARY: Repeals the following and transfers any unencumbered balances to the general fund:

Transportation use special fund (HRS section 261D-1)

Abolishes the following funds and provides that any unencumbered balances be transferred to the general fund:

- (1) the Amtrak trust account established in 1998 and administered by the department of transportation;
- (2) the Hurricane Iniki insurance proceeds special fund administratively established in 1997 and administered by the department of transportation; and
- (3) the deposits—plans and specifications trust account administratively established in 1988 and administered by the department of transportation.

EFFECTIVE DATE: June 29, 2015

STAFF COMMENTS: This measure implements some of the state auditor's recommendations in the various auditor's reports that reviewed the special funds, revolving funds, trust funds, and trust accounts of the state.

The 1989 Tax Review Commission noted that use 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."

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 3/20/15