

**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,  
ON HOUSE BILL NO. 79, HOUSE DRAFT 1,  
RELATING TO NON-GENERAL FUNDS**

**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 the opportunity to testify in support of House Bill No. 79, House Draft 1 (HB 79, HD 1), which would reclassify or repeal various non-general funds, as recommended by the Auditor in Auditor's Report No. 14-13.

In 2014, we reviewed the non-general funds of ATG and DBEDT (Report No. 14-13). 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**Funds that *do not meet* criteria and would be repealed by HB 79, HD 1**

We support repealing DBEDT funds that *do not meet* criteria and transferring remaining balances to the general fund:

1. **Pineapple Workers and Retirees Housing Assistance Special Fund** (Section 13) established under §201H-85, HRS. We recommended repeal; HHFDC agreed.
2. **Public Facility Revenue Bond Special Fund** (Section 21), established under Chapter 206E, part IV, HRS. We recommended repeal.
3. **Capital Formation Revolving Fund** (Section 24), established under Chapter 211G, HRS. We recommended repeal.
4. **Statewide Geospatial Information and Data Integration Special Fund** (Section 27), established under §225M-7, HRS. We recommended repeal; DBEDT agreed.
5. **Fee Simple Residential Revolving Fund** (Section 32), established under §516-44, HRS. We recommended repeal; HHFDC agreed.

**Funds that would be *reclassified* by HB 79, HD 1**

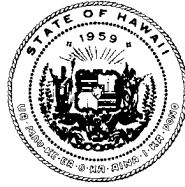
We support *reclassifying* funds listed in our report that serve the purpose for which they were originally created, but function either as a revolving or special fund:

1. **Housing Loan Program Revenue Bond Special Fund – Rental Housing System** (Section 9), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.
2. **Housing Loan Program Revenue Bond Fund** (Section 10), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.

3. **Housing Project Bond Special Fund – Multi Family** (Section 11), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.
4. **Rental Housing Trust Fund** (Section 16), established under §201H-202. We recommended reclassify as a revolving fund; HHFDC agreed.
5. **Tourism Emergency Trust Fund** (Section 3), established under §201B-10, HRS. We recommended reclassify as a special fund.

Thank you for the opportunity to testify in support of HB 79, HD 1. I am available to answer any questions you may have.

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
EXECUTIVE DIRECTOR

**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
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IN REPLY REFER TO:

Statement of  
**Craig K. Hirai**  
Hawaii Housing Finance and Development Corporation  
Before the

**SENATE COMMITTEE ON WAYS AND MEANS**

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

In consideration of  
**H.B. 79, H.D. 1**  
**RELATING TO NON-GENERAL FUNDS.**

The HHFDC **supports parts III, IV, V, and IX of H.B. 79, H.D. 1.** We take no position on the remainder of this bill.

Part III reclassifies the Housing Loan Program Revenue Bond Program Special Fund – Rental Housing System, the Housing Loan Program Revenue Bond Special Fund and the Housing Project Bond Special Fund – Multi Family, established pursuant to section 201H-80, HRS, as revolving funds. Part V reclassifies the Rental Housing Trust Fund as a revolving fund. HHFDC agrees with the Legislative Auditor's findings that these funds should be reclassified as revolving funds.

Part IV repeals the Pineapple Workers and Retirees Housing Assistance Fund. Part IX repeals the Fee Simple Residential Revolving Fund. The HHFDC agrees with the Legislative Auditor's findings that these funds no longer serve the purpose for which they were created, and should be repealed.

Thank you for the opportunity to testify.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** MISCELLANEOUS, Reclassify and repeal non-general funds

**BILL NUMBER:** HB 79, HD-1

**INTRODUCED BY:** House Committee on Finance

**EXECUTIVE SUMMARY:** Repeals or reclassifies various non-general funds including special funds, revolving funds, trust funds, and trust accounts of the department of defense and the department of land and natural resources and the department of the attorney general and department of business, economic development and tourism, all in accordance with the State Auditor's recommendations.

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

- Pineapple workers and retirees housing assistance fund (HRS 201H-85)
- Public facility revenue bond special fund
- Capital formation revolving fund (HRS chapter 211G)
- Statewide geospatial information and data integration special fund (HRS 225M-7)
- Fee simple residential revolving fund (HRS section 516-44)

Reclassifies the tourism emergency trust fund as a special fund (HRS section 201B-101)

Reclassifies the following funds as revolving funds:

- Housing finance revolving fund; bond special fund;
- The housing loan program revenue bond special fund - rental housing system, established in 1987 as administered by the department of business, economic development and tourism (DBEDT);
- The housing loan program revolving bond fund, established in 1979 and administered by the DBEDT and also known as the single family mortgage purchase revenue bond fund;
- The housing project bond special fund - multi family, established in 1980 and administered by the DBEDT;
- Rental housing trust fund

**EFFECTIVE DATE:** July 1, 2015

**STAFF COMMENTS:** This measure implements some of the state auditor's recommendations in the auditor's report No. 14-13 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the department of defense and the department of land and natural resources and the department of the attorney general and department of business, economic development and tourism.

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



Written Statement of

**KARL FOOKS**  
**President**

Hawaii Strategic Development Corporation

Before the  
**COMMITTEE ON WAYS AND MEANS**

**March 24, 2015**  
**9:00 AM**  
**State Capitol, Conference Room 211**

In consideration of  
**HB 79 HD 1 RELATING TO NON-GENERAL FUNDS**

Chair Tokuda, Vice Chair Kouchi, and Members of the Committee on Ways and Means:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of Sections 23 and 24 of HB 79 HD 1, legislation that reclassifies and repeals various non-general funds, as recommended by the Auditor in Auditor's Report No. 14-13.

Thank you for the opportunity to provide testimony.