

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

**House Committee on Finance**

February 18, 2015

Chair Luke 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 (HB 79), 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 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**Funds that *do not meet* criteria and would be repealed by HB 79**

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



1. **Hawai'i Television and Film Development Special Fund** (Sections 4 and 5), established under §201-113, HRS. We recommended repeal; DBEDT agreed.
2. **Pineapple Workers and Retirees Housing Assistance Special Fund** (Section 17) established under §201H-85, HRS. We recommended repeal; HHFDC agreed.
3. **Renewable Energy Facility Siting Special Fund** (Section 25), established under §201N-11, HRS. We recommended repeal; DBEDT agreed.
4. **Public Facility Revenue Bond Special Fund** (Section 27), established under Chapter 206E, part IV, HRS. We recommended repeal.
5. **Hawai'i Technology Loan Revolving Fund** (Section 29), established under 206M-15.6, HRS. We recommended repeal.
6. **Hawai'i Community-Based Economic Development Revolving Fund** (Section 32), established under §210D-4, HRS. We recommended repeal.
7. **Capital Formation Revolving Fund** (Section 35), established under Chapter 211G, HRS. We recommended repeal.
8. **Statewide Geospatial Information and Data Integration Special Fund** (Section 38), established under §225M-7, HRS. We recommended repeal; DBEDT agreed.
9. **Fee Simple Residential Revolving Fund** (Section 43), established under §516-44, HRS. We recommended repeal; HHFDC agreed.

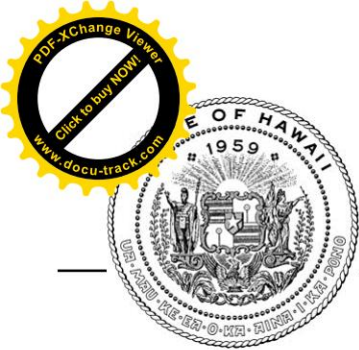
**Funds that would be reclassified by HB 79**

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 13), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.
  
2. **Housing Loan Program Revolving Bond Fund** (Section 14), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.
  
3. **Housing Project Bond Special Fund – Multi Family** (Section 15), established under §201H-80. We recommended reclassify as a revolving fund; HHFDC agreed.
  
4. **Rental Housing Trust Fund** (Section 18), established under §201H-202. We recommended reclassify as a revolving fund; HHFDC agreed. Also, as to Section 20 of this bill (page 20, line 19), we note that the title should be amended to read “J. Rental Housing [~~Trust~~] **Revolving** Fund” (not “Special” fund).
  
5. **Tourism Emergency Trust Fund** (Section 7), established under §201B-10, HRS. We recommended reclassify as a special fund.

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



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**



**LUIS P. SALAZAR**  
DIRECTOR

**MARY ALICE EVANS**  
DEPUTY DIRECTOR

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Statement of  
**LUIS P. SALAZAR**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON FINANCE**

Wednesday, February 18, 2015  
2:00 p.m.  
State Capitol, Conference Room 308

in consideration of  
**HB 79**  
**RELATING TO NON-GENERAL FUNDS.**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following testimony on HB 79, which would repeal and reclassify various non-general funds as recommended by the Office of the Auditor in Report No. 14-13. DBEDT opposes Part II, the repeal of the Hawaii Television and Film Development Special Fund. DBEDT offers comments on Part VII, the repeal of the Renewable Energy Facility Siting Special Fund. DBEDT opposes Part X, the repeal of the Hawaii Community-Based Economic Development Revolving Fund.

1. DBEDT opposes Part II, the repeal of the Hawaii Television and Film Development Special Fund (H.R.S. §201-113).

While we agree with the Auditor's Report that the Hawaii Television and Film Development Special Fund does not serve its original purpose and is not financially self-sustaining, DBEDT believes there is a current need for this Fund. The Hawaii Television and Film Development Board, to which the Fund is attached, has been inactive for more than 10 years. The Board's Special Fund has never been funded in all that time. If the non-functional Board were repealed, the Fund could be re-named and re-purposed to serve as a vehicle to capture rent from the Hawaii Film Studio and film permitting and tax credit processing fees that may be established by the Hawaii Film Office. These



funds would go toward the ongoing repair and maintenance of the Film Studio as well as operation of the Hawaii Film Office and marketing and development of Hawaii's film industry.

2. DBEDT offers comments on Part VII, the repeal of the Renewable Energy Facility Siting Special Fund (H.R.S. §201N-11).

DBEDT's Report to the 2015 Legislature on H.R.S. §201N concluded that the Renewable Energy Facility Siting Process and its Special Fund are no longer relevant to fulfilling Hawaii Clean Energy Initiative goals and should ultimately be repealed. To communicate the reasons why DBEDT has concluded that the repeal of H.R.S. §201N serves the public interest, DBEDT seeks to engage renewable energy stakeholders through mid-2015 to discuss the reasons for a repeal and the resources still available through DBEDT to support the appropriate siting of renewable energy facilities.<sup>1</sup> Therefore, DBEDT believes it would be most prudent to repeal this Special Fund as part of an overall repeal of H.R.S. §201N in a future legislative session.

3. DBEDT opposes Part X, the repeal of the Hawaii Community-Based Economic Development (CBED) Revolving Fund (H.R.S. §210D-4).

The Auditor's Report agrees that the Hawaii CBED Revolving Fund "continues to serve the purpose for which it was created." The Fund was established to provide training and capacity-building opportunities, and invest in community economic development projects that result in measurable economic impact. The Auditor contends that the CBED Revolving Fund does not meet the criteria for a revolving fund and recommends the repeal of the Fund and the program budgeted through the General Fund.

The focus of the CBED Revolving Fund has been on grants and revenue generating activities to sustain the program including the development of its microloan program in cooperation with the Department of Agriculture loan officer. Sources of revenue to the Fund include repayments of loan principal, loan interest, and interest from the Department's participation in the State's investment pool, and fees assessed for conferences and seminars.

We defer to the other DBEDT attached agencies and the Department of the Attorney General on the repeal and reclassification of any other funds identified in this measure.

Thank you for the opportunity to offer these comments on HB 79.

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<sup>1</sup> *Renewable Energy Facilitation Activities & the Renewable Energy Facility Siting Process*, Periodic Report to the Legislature, In Accordance with Act 208, Session Laws of Hawaii, 2008, p. 15 (December 2014).



Written Statement of  
**ROBBIE MELTON**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**HOUSE COMMITTEE ON FINANCE**  
Wednesday, February 18, 2015  
2:00 p.m.  
State Capitol, Conference Room 308  
In consideration of

**HB79 RELATING TO NON-GENERAL FUNDS.**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance.

The High Technology Development Corporation (HTDC) **opposes** PART IX, Section 28 of HB79 which would repeal the Hawaii technology loan revolving fund of HRS206M-15.6.

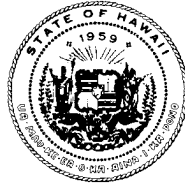
The fund was established in 2000 to invest in technology development in Hawaii by providing loans to qualified high technology companies in the state. The fund was designed to provide support and create business opportunities for Hawaii's technology industry by making capital available to those companies that have difficulty obtaining loans from conventional means. However, with seed funding intended to come from the Hawaii Capital Loan Fund which was repealed by Act 178 SLH 2003, the fund was never capitalized. HTDC has subsequently requested funding through the legislative budget process without success.

HTDC's current strategic plan includes establishing a commercialization fund for technology companies to bridge the gap between research and development and the commercial market. Nationally, this funding gap is recognized as "the valley of death" for small businesses and where many promising technologies are lost. Bridging this gap with a diverse set of funding opportunities enables the volume of attempts required to achieve success in this high risk/high reward industry. Even the less successful attempts create tech job opportunities and contribute towards a critical mass required to foster innovation.

A commercialization fund is an economic development best practice offered by many states nationally and has been the topic of a number of recent federal grant solicitations. This year, HTDC is applying for federal funding to create a revolving loan fund for technology and manufacturing companies.

Furthermore, the cost of having the revolving loan fund is very small for the State. Reestablishing the fund would require significant cost and effort for HTDC. Despite the history with lack of capital, the intent and structure of the fund remain necessary and relevant.

Thank you for the opportunity to offer these comments.



**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

**HOUSE COMMITTEE ON FINANCE**

February 18, 2015 at 2:00 p.m.  
State Capitol, Room 308

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

The HHFDC **supports parts IV, V, VI, and XIII of H.B. 79 with a requested amendment.** We take no position on the remainder of this bill.

Part IV reclassifies the Housing Loan Program Revenue Bond Special Fund and the Housing Project Bond Special Fund established pursuant to section 201H-80, HRS, as revolving funds. The HHFDC agrees with the Auditor's findings that these funds serve the purpose for which they were created, but should be reclassified as revolving funds.

Part V of H.B. 79 repeals the Pineapple Workers and Retirees Housing Assistance Fund. The HHFDC agrees with the Auditor's finding that this fund has fulfilled its purpose and should be repealed. We note that H.B. 923, an Administration bill, also would repeal this Fund.

Part VI reclassifies the Rental Housing Trust Fund as a revolving fund. The HHFDC disagreed with the Auditor's finding that this fund should be reclassified as a special fund instead of a revolving fund. Therefore, to be consistent with the rest of Part VI, **HHFDC requests that page 20, line 19 of this bill be amended to read as follows:**

"J. Rental Housing [~~Trust~~] Revolving Fund"

Part XIII repeals the Fee Simple Residential Revolving Fund. The HHFDC agrees with the Legislative Auditor's findings that this Fund no longer serves the purpose for which it was created, and should be repealed.

Thank you for the opportunity to testify.



# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Reclassify and repeal non-general funds

BILL NUMBER: HB 79

INTRODUCED BY: Luke and Nishimoto

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:

- Hawaii television and film development special fund (HRS section 201-113)
- Pineapple workers and retirees housing assistance fund (HRS 201H-85)
- Renewable energy facility siting special fund (HRS section 201N-11)
- Public facility revenue bond special fund
- Hawaii technology loan revolving fund (HRS section 206M-15.6)
- Hawaii community-based economic development revolving fund (HRS section 210D-4)
- 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 2/17/15