

# TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, General fund expenditure ceiling

BILL NUMBER: SB 106, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 37-91 to provide that beginning with the 2019-2020 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.

Directs the 2015 Tax Review Commission to review this act as part of the commission's evaluation of the tax structure and determine if it is consistent with the revenue and tax policy of the state.

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 2019-2020 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.

Digested 3/18/15

TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
SENATE BILL NO. 106, S.D. 1

**LATE**

March 19, 2015

RELATING TO THE GENERAL FUND EXPENDITURE CEILING

Senate Bill No. 106, S.D. 1, 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; however it is unclear when the old formula ends and the new formula begins. For the Committee's information, we have done an illustrative comparison of the expenditure ceiling based on the current and revised formulas using FY 2009 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 2009 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, total appropriations have been considerably lower than the expenditure ceiling. Under the revised formula proposed in Senate Bill No. 106, S.D. 1, total appropriations would have exceeded the expenditure ceiling in FYs 2012, 2013, 2014 and 2017. Under the re-benchmarked (if applied to FY 2009 total appropriations) formula, total appropriations would not exceed the expenditure ceiling in any fiscal year, but the margin using the re-benchmarked formula is significantly lower than the margin using the current formula.

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

General Fund Expenditure Ceiling Calculations for SB 106, Relating to the General Fund Expenditure Ceiling

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Growth Rate		6.19%	3.95%	2.56%	2.35%	3.63%	3.76%	3.54%	3.14%
<b>Current Formula:</b>									
Aggregate Expenditure Ceiling		6,457,292,158	6,712,674,674	6,884,815,157	7,046,584,839	7,302,024,233	7,576,523,885	7,844,491,067	8,090,823,885
General Fund Appropriations	5,682,993,435	5,381,821,674	5,203,472,797	5,641,240,162	5,847,756,888	6,399,670,330	6,630,802,517	6,769,766,653	7,096,783,337
Margin		1,075,470,484	1,509,201,877	1,243,574,995	1,198,827,951	902,353,903	945,721,368	1,074,724,414	994,040,548
<b>If Aggr Exp Ceiling is based on previous year's appropriations:</b>									
Aggregate Expenditure Ceiling		6,034,770,729	5,594,403,630	5,336,681,701	5,773,809,306	6,060,030,463	6,640,297,934	6,865,532,926	6,982,337,326
General Fund Appropriations	5,682,993,435	5,381,821,674	5,203,472,797	5,641,240,162	5,847,756,888	6,399,670,330	6,630,802,517	6,769,766,653	7,096,783,337
Margin		652,949,055	390,930,833	(304,558,461)	(73,947,582)	(339,639,867)	9,495,417	95,766,273	(114,446,011)
<b>If FY 09 appropriation is benchmarked as the aggregate expenditure ceiling:</b>									
Aggregate Expenditure Ceiling		6,034,770,729	6,273,144,172	6,433,736,663	6,584,929,475	6,823,962,415	7,080,543,402	7,331,194,638	7,561,394,150
General Fund Appropriations	5,682,993,435	5,381,821,674	5,203,472,797	5,641,240,162	5,847,756,888	6,399,670,330	6,630,802,517	6,769,766,653	7,096,783,337
Margin		652,949,055	1,069,671,375	792,496,501	737,172,587	424,292,085	449,740,885	561,427,985	464,610,813

Note: FYs 15, 16 and 17 appropriations are based on proposed appropriations  
 Growth rates are based on the November TPI forecasts of the Council on Revenues in odd-numbered years (when the Executive Budget was prepared)