

TESTIMONY BY ELIZABETH O. KIM
SPECIAL ADVISOR TO THE GOVERNOR

HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2550
RELATING TO FEDERAL FUNDS

March 22, 2016
2:00 p.m.

Senate Bill No. 2550 requires the Office of the Governor to prepare a federal funding policy study for the State of Hawaii, with an interim report required to be submitted to the Legislature before the 2017 regular session and the final study and proposed legislation to be submitted before the 2018 regular session. The bill also appropriates \$50,000 in general revenues in FY 2017 for the preparation of the study.

The Office of the Governor supports the concept of conducting a policy study on federal funding. Presuming that a study of this nature has not been previously conducted, the data to be gathered and analysis to be conducted, as proposed by the bill, would be informative to both the state executive and legislative branches. Note that this study does not take into consideration federal funds received by the state judicial branch or the various county governments.

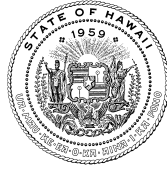
Recognizing the benefits of such a study, the Office of the Governor nevertheless has concerns about the due dates and resources required for this type of comprehensive study. Items 1 and 2 of Section 2(b) could possibly be accomplished during the 2016 Interim with the Governor's Office working collaboratively with the Department of Budget and Finance, all executive departments, and respective federal agency counterparts. Items 3 to 5 in Section 2(b), as well as the recommended policy

parameters, conditions, and considerations listed in items 1 to 5 in Section 2(c) would require independent economic analyses from resources external to the Office of the Governor. The process of scoping a request for proposals for such analyses and policy development, soliciting bids, and awarding the contract could take up much of the 2016 interim, and would likely not be completed until sometime in late 2017. Further, we are not able to evaluate if the \$50,000 would be sufficient for such analyses.

Given the breadth of the study, coupled with the volume and complexity of all of the federal fund grant and loan programs, we request your consideration in dividing the study into two parts. The interim report due prior to the 2017 regular session, could include a response to Items 1 and 2 of Section 2(b), and identifying the potential costs and availability of qualified consultants to conduct the economic analyses and policy development to sufficiently respond to the remaining items in Section 2(b) and Section 2(c).

Finally, we agree with the Department of Budget and Finance's assessment that to the extent federal funds are used to support the implementation and operation of federal programs within the State, a certain level of federal funding is integral to maintaining the State's economy.

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
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Given the significant amount of federal funds in the State budget, the Department of Budget and Finance supports this measure but has the following concerns.

The preparation of a comprehensive study and the development of related policies would require the procurement of consultant services, in addition to extensive departmental assistance. In consideration of the potential time required for this bill to be enacted and the subsequent procurement process, we are concerned that the proposed due dates would not provide adequate time for the reports, policies and legislation to be properly coordinated and completed.

It is likely that an interim report prepared at the end of this year would not be substantive. Further, we believe that the thorough review of the State's federal awards, which may each have different criteria and requirements, and the development of recommended policies, may prove difficult given the complexities of the various federal grant programs.

As such, it also appears that the funding that this bill currently provides would be insufficient. Although we do not have a recommended amount at this time, we will continue to research the cost to implement this measure.

We understand that the intent of this measure is to develop a policy which reduces the dependence of State government on federal funds. While we share the Legislature's concern regarding potential reductions to federal funds, it should be recognized that a significant amount of federal awards are for the State to implement federal programs. Further, the Ige Administration has strongly supported maximizing the use of federal funds to supplement our State dollars as federal funds can directly support program operations while they indirectly support our economy.