



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 2553
RELATING TO NON-GENERAL FUNDS**

Senate Committee on Ways and Means

February 4, 2016

Chair Tokuda and Members of the Committee:

Thank you for the opportunity to testify in support of this bill. SB 2553 would repeal, abolish, and transfer balances of various non-general funds of the Department of Human Services (DHS) and its administratively attached agency, the Hawai'i Public Housing Authority (HPHA).

The impetus for this bill is our Report No. 15-19, *Review of Special Funds, Revolving Funds, Trust Funds and Trust Accounts of the Department of Human Services*. 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). Moreover, 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Funds that do not meet criteria and would be repealed by SB 2553

We support repealing DHS and HPHA funds that *do not meet* criteria:

1. **Child Care Licensing and Registration Special Fund** (Section 2) established under Section 346-159, HRS. We recommended the fund be repealed; DHS concurred.
2. **Housing Project Bond Special Fund** (Section 5) established under Section 356D-28, HRS. We recommended the fund be repealed; HPHA concurred.

Funds that do not meet criteria and would be abolished by SB 2553

We support abolishing the following administratively established DHS and HPHA funds that *do not meet* criteria:

1. **Blueprint for Change Program Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
3. **Costs Related to Homeless Assistance Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
4. **Hale Mahaolu Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
5. **Hawai‘i Immigrant Health Initiative Program Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.

6. **Outreach Services Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
7. **Outreach Services to Locate Uninsured Children Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
8. **Outstationed Eligibility Worker Services Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
9. **Shelter Plus Care Program Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Special Fund; DHS concurred.
10. **Support Domestic Violence Shelters Statewide Special Fund** (Section 9) – We recommended the fund be closed and the remaining balance returned to the Emergency and Budget Reserve Fund; DHS concurred.
11. **Financial Assistance for Housing Special Fund** (Section 9) – We recommended the fund be closed; HPHA concurred.
12. **DHS Homeless Trust Fund** (Section 10) – We recommended the fund be closed; DHS concurred.
13. **Geist Foundation Trust Account** (Section 10) – We recommended the fund be closed; DHS concurred.
14. **Kahikolu ‘Ohana O Wai‘anae Project Trust Fund** (Section 10) – We recommended the fund be closed; DHS concurred.

15. Recruitment of Foster Parents Trust Account (Section 10) – We recommended the fund be closed; DHS concurred.

Thank you again for the opportunity to testify in support of SB 2553. I am available to answer any questions you may have.

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SUBJECT: MISCELLANEOUS, Repeal non-general funds

BILL NUMBER: SB 2553

INTRODUCED BY: TOKUDA, BAKER, DELA CRUZ, ENGLISH, GALUTERIA, HARIMOTO, INOUYE, KEITH-AGARAN, KIDANI, NISHIHARA, SHIMABUKURO

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:

1. Child care licensing and registration special fund (HRS section 346-159);
2. The housing project bond special funds (HRS sections 356D-23 and 356D-28);
3. The department of human services homeless trust fund created in 2006;
4. The Geist foundation trust account created in 1997;
5. Kahikolu 'Ohana O Wai'anae project trust fund created in 2007; and
6. The recruitment of foster parents trust account created in 1987.

Repeals the following and transfers any unencumbered balances to the emergency and budget reserve fund:

1. The blueprint for change program special fund administratively established in 2010;
2. The cots related to homeless assistance special fund administratively established in 2003;
3. The Hale Mahaolu special fund administratively created in 2010;
4. The Hawai'i immigrant health initiative program special fund administratively created in 2010;
5. The outreach services special fund administratively created in 2010;
6. The outreach services to locate uninsured children special fund administratively created in 2010;
7. The outstationed eligibility worker services special fund administratively created in 2010;
8. The shelter plus care program special fund administratively created in 2010;
9. The support domestic violence shelters statewide special fund administratively established in 2010; and
10. The financial assistance for housing special fund administratively established in 2001.

EFFECTIVE DATE: July 1, 2016.

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, 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 2/1/2016