

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2845

February 4, 2016

MAKING APPROPRIATIONS TO REPAY GENERAL FUND CASH ADVANCES

Senate Bill No. 2845 makes a total appropriation of \$103,200,000 in general funds for fiscal year (FY) 2016-17 in order to formally “write off” two large general fund cash advances made in prior years. The current general fund, fund balance reflects repayments for an \$89,900,000 cash advance for the purchase of the former Kapalama Military Reservation and for a \$13,300,000 cash advance for the Hawaii Health Systems Corporation (HHSC) as part of the fund balance total.

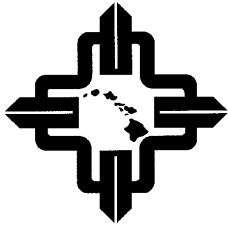
The Department of Budget and Finance strongly supports this Administration bill.

To purchase approximately 67 acres of the former Kapalama Military Reservation, Act 73, SLH 1989, authorized \$90,000,000 in general obligation (G.O.) bond funds. However, due to private activity restrictions on the use of tax-exempt G.O. bond funds, general fund cash advances of \$57,000,000 and \$33,000,000 totaling \$90,000,000 were made to the State’s capital projects fund to finance the land purchase. As of June 30, 2015, the amount owed to the general fund is \$89,900,000.

In FY 2002-03, in order for the HHSC to fund its employer contributions to the employees' retirement system and to the health fund, general fund cash advances totaling \$13,300,000 were made to the corporation. As of June 30, 2015, the amount owed to the general fund is \$13,300,000.

The Administration has come to the conclusion that after all these years, it is unlikely these cash advances totaling \$103,200,000 will be repaid. Consequently, the assets and liabilities of the general fund are overstated by \$103,200,000, respectively.

The Administration believes that formally "writing off" the general fund cash advances will result in a more accurate general fund balance and better reflect actual resources available to finance State programs.



HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

"Quality Healthcare For All"

**Senate Committee on Ways and Means
Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair**

February 4, 2016
Conference Room 211
9:00 a.m.
Hawaii State Capitol

**Testimony Supporting Intent of Senate Bill 2845, Making Appropriations to Repay
General Fund Advances.**

**Makes general fund appropriations for fiscal year 2016-2017 to repay prior
general fund cash advances of \$89,900,000 for the purchase of lands of the
former Kapalama Military Reservation and of \$13,300,000 for the Hawaii Health
Systems Corporation.**

Linda Rosen, M.D., M.P.H.
Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony **supporting the intent** of S.B. 2845 that makes general fund appropriations for fiscal year 2016-2017 to repay prior general fund cash advances of \$89,900,000 for the purchase of lands of the former Kapalama Military Reservation and of \$13,300,000 for the Hawaii Health Systems Corporation.

In July 2002, the State Department of Budget & Finance (B&F) issued a fringe benefit rate memorandum that effectively raised the fringe benefit rate assessed to all State agencies from 21.19% to 32.22% (primarily due to increased pension contributions). The impact of this change to HHSC was approximately \$14,000,000. HHSC was not made aware of this change until after the 2002 Legislative Session had ended and did not project to have sufficient funds to make it through the year. As a result, HHSC requested from the Governor through B&F a \$14,000,000 advance to provide it with sufficient cash to make it through June 30, 2003. The advance was approved by the Governor in November 2002. At the time, the Administration supported an emergency appropriation of \$14,000,000 for HHSC in order to pay back the advance. In April 2003, HHSC was informed that the Governor was placing a \$700,000 restriction on HHSC's general fund appropriation. This amount was taken out of the proceeds from the

advance, leaving a balance on the advance of \$13,300,000. The advance was expended throughout fiscal year 2003, and there is nothing remaining unspent on the advance. The emergency appropriation request to repay the \$13,300,000 balance of the advance was not approved by the Legislature. Since then, HHSC has tried several times to get the Administration and the Legislators to either support an appropriation to repay the \$13,300,000 advance or forgive the advance entirely, but with no success.

HHSC **supports the intent** of this bill to appropriate funds to repay this advance, but only if it doesn't take away from HHSC's additional funding request of \$21,000,000 that will be coming by a Governor's message.

Thank you for the opportunity to testify before this committee.