

DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

LAUREL A. JOHNSTON  
DEPUTY DIRECTOR

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

**STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

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

**WRITTEN ONLY**  
TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
HOUSE BILL NO. 471, H.D. 1

**March 22, 2017  
9:30 a.m.  
Room 211**

**RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND**

House Bill (H.B.) No. 471, H.D. 1, limits legislative authority when it makes appropriations from the Emergency and Budget Reserve Fund (EBRF). More specifically, this measure prohibits: 1) appropriating more than 50% of the EBRF balance; 2) appropriating more than 10% of total discretionary funds appropriated by the Legislature in the same fiscal year; and 3) making appropriations from the EBRF unless the current fiscal year's tax collections reflect negative growth over the previous fiscal year's tax collections.

The Department of Budget and Finance (B&F) offers the following comments on H.B. No. 471, H.D. 1. B&F believes that restraint should be exercised when making appropriations from the EBRF. Careful consideration of the need to use EBRF funds and a thorough review process prior to making EBRF appropriations is critical to maintaining a reserve fund balance for the future. Notwithstanding that cautionary stance, it is unclear whether limiting the amount, as well as when appropriations are allowed, may be overly restrictive.

The purpose of the EBRF is to provide a temporary supplemental source of funds during emergencies, severe economic downturns, or unforeseen reduction in revenues. If enacted, this measure could prohibit or limit the Legislature's authority to make appropriations from the EBRF in an emergency situation. Appropriations from EBRF would not be allowed (at all) even if tax revenues had zero growth. Thus, enactment of H.B. No. 471, H.D. 1, could significantly limit the Legislature's options during emergencies, economic downturns, or unforeseen reduction in revenues.

On a technical matter, it is also unclear whether discretionary funds would be calculated based on all means of financing or general funds only.

Thank you for your consideration of our comments.



2005 Market Street, Suite 2800 P 215.575.9050  
Philadelphia, PA 19103-7077 F 215.575.4939

---

901 E Street NW, 10th Floor P 202.552.2000  
Washington, DC 20004 F 202.552.2299  
[pewtrusts.org](http://pewtrusts.org)

**Testimony of  
Robert Zahradnik, Director and Patrick Murray, Senior Associate  
State Fiscal Health Project at The Pew Charitable Trusts**

**Senate Committee on Ways and Means**

**March 22, 2017 In Support of H.B. 471**

Chairwoman Tokuda, Vice Chairman Dela Cruz, and members of the Senate Committee on Ways and Means:

Over the past four years, The Pew Charitable Trusts has extensively researched the policies that govern budget stabilization funds, commonly referred to as “rainy day funds.” Through an evidence-based assessment of all 50 states, Pew has determined the best policies for withdrawing from such funds. Upon review, Pew finds that H.B. 471 aligns with these best policies because it establishes clear withdrawal conditions for Hawaii’s Emergency and Budget Reserve Fund consistent with best practices identified by Pew research.

Rainy day funds offer states a vital tool for stabilizing budgets during downturns. However, these funds need clear rules and guidelines to ensure that states use them in line with their purpose. One crucial element is establishing clear and measurable withdrawal rules to guide state leaders in making difficult decisions about when to put rainy day fund balances to use.

While Hawaii currently lists a number of purposes for the Emergency and Budget Reserve Fund, H.B. 471 improves the withdrawal rules in two ways:

1. The bill establishes clear and measurable conditions for fund use; and
2. The conditions established are based on revenue volatility.

**The bill establishes clear and measurable conditions for fund use.**

First, by establishing clear and objective withdrawal conditions, the bill provides valuable guidance to policymakers while still preserving legislative and executive discretion as to whether to tap a reserve fund in order to address budgetary

priorities. Currently, Hawaii is one of 10 states that have withdrawal conditions with vague language, which makes it unclear what fiscal conditions actually allow for withdrawal. The new bill changes this by clearly establishing that the state can only make a withdrawal when “the State has collected or is projected to collect less tax revenue in the current fiscal year compared to the immediately preceding fiscal year.”

**The conditions established are based on revenue volatility.**

Second, the clear conditions established in the bill are directly tied to revenue volatility. This is consistent with a Pew-identified best practice to link withdrawal conditions directly to revenue changes. These types of conditions not only ensure reserves are only used in times of revenue or economic distress, but also promote structural balance by preventing one-time funds from being used during periods of growth.

# TAX FOUNDATION OF HAWAII

---

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

---

SUBJECT: MISCELLANEOUS, Restrict Use of Rainy Day Fund

BILL NUMBER: HB 471, HD-1

INTRODUCED BY: House Committee on Finance

SYNOPSIS: Amends HRS section 328L-3 by adding a new subsection (f) providing that the legislature shall not appropriate from the emergency and budget reserve fund:

- (1) More than 50% of the total balance of the fund in a fiscal year;
- (2) In a fiscal year, an amount that exceeds 10% of the total discretionary funds appropriated by the legislature for the same fiscal year for which emergency and budget reserve fund moneys are appropriated; and
- (3) For a succeeding fiscal year [after a year for which fund moneys are appropriated], unless the State has collected or is projected to collect less tax revenue in the current fiscal year compared to the immediately preceding fiscal year.

EFFECTIVE DATE: July 1, 2017.

STAFF COMMENTS: This measure enacts restrictions upon use of the Emergency and Budget Reserve Fund. However, this bill appears to be an exercise in futility. If it is desired to breach any of the thresholds stated in this bill, it would be easy to include within an appropriation bill either (1) language amending section 328L-3, or (2) language saying that the appropriation is effective notwithstanding the provisions proposed by this bill.

Digested 3/14/2017