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Testimony of
Robert Zahradnik, director and Patrick Murray, senior associate
State Fiscal Health Project at The Pew Charitable Trusts

House Committee on Finance

February 9, 2017
In Support of H.B. 471

Chairman Luke, Vice Chairman Cullen, and members of the House Committee on Finance:

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.

DAVID Y. IGE
GOVERNOR

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LATE

WRITTEN ONLY
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 471

February 9, 2017
2:00 p.m.
Room 308

RELATING TO THE EMERGENCY AND BUDGET RESERVE FUND

House Bill (H.B.) No. 471 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. 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, 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.