

JAN 26 2022

A BILL FOR AN ACT

MAKING AN APPROPRIATION TO THE EMERGENCY AND BUDGET RESERVE
FUND.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The COVID-19 pandemic has wreaked havoc on
2 Hawaii's economy and residents for the past two years. It has
3 demonstrated how vulnerable the State's economic and fiscal
4 health can be to external shocks beyond the State's control.

5 Fortunately, the federal government was able to provide
6 significant, direct financial assistance to the State and to
7 Hawaii residents and businesses to help through the worst of the
8 difficulties. Tourism and Hawaii's economy have been recovering
9 much more quickly than anticipated, in part due to the Safe
10 Travels Hawaii program, and the State is now back on a strong
11 fiscal footing.

12 However, the COVID-19 pandemic is still unfolding and there
13 are troubling signs brewing in terms of seemingly more severe
14 climate change, increasing tensions with China and Russia, and
15 growing polarization of political viewpoints in the United
16 States. Given these turbulent conditions, the State must be
17 prepared to weather the worst on its own because the federal

S.B. NO. 3074

1 government may not be able to assist as generously in the
2 future.

3 The purpose of this Act is to significantly build up the
4 State's fiscal reserves by depositing \$1,000,000,000 into the
5 emergency and budget reserve fund for fiscal year 2021-2022.
6 This deposit will bring the emergency and budget reserve fund
7 balance to approximately 14.7 per cent of prior year general
8 fund revenues, which will provide a strong reserve for the
9 future.

10 SECTION 2. There is appropriated out of the general
11 revenues of the State of Hawaii the sum of \$1,000,000,000 or so
12 much thereof as may be necessary for fiscal year 2021-2022 for
13 the department of budget and finance for the purpose of further
14 capitalizing the emergency and budget reserve fund. The sum
15 appropriated shall be deposited into the emergency and budget
16 reserve fund established pursuant to section 328L-3, Hawaii
17 Revised Statutes, by the department of budget and finance for
18 the purposes of the Act.

19 SECTION 3. This Act shall take effect upon its approval.

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INTRODUCED BY: 

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BY REQUEST

S.B. NO. 3074

Report Title:

Emergency and Budget Reserve Fund; Appropriation

Description:

Makes a general fund appropriation for fiscal year 2021-2022 to further capitalize the Emergency and Budget Reserve Fund.

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JUSTIFICATION SHEET

SB. NO. 3074

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT MAKING AN APPROPRIATION TO THE EMERGENCY AND BUDGET RESERVE FUND.

PURPOSE: To appropriate \$1,000,000,000 in general funds for fiscal year 2021-2022 to be deposited into the Emergency and Budget Reserve Fund (EBRF).

MEANS: Make a general fund appropriation to the EBRF.

JUSTIFICATION: Nearly two years into the COVID-19 pandemic, Hawaii's economy has been through drastic and dramatic changes. Hawaii experienced a virtual shut down of the tourist industry, a record increase in unemployment, and dramatically reduced general fund revenues in a matter of months at the pandemic's onset, all of which culminated in projected \$1.4 billion annual deficits through the budget planning period as we approached the legislative session making appropriations for the fiscal biennium 2021-2023 budget.

To assist states with costs associated with their pandemic response and to support economic recovery, extraordinary amounts of federal funds have been provided to the State and to Hawaii residents and businesses. Fortunately, tourism and Hawaii's economy are recovering much more quickly than anticipated and the State is now back on a strong fiscal footing.

However, the COVID-19 pandemic is still unfolding and there are troubling signs brewing in terms of seemingly more severe climate change, increasing tensions with China and Russia, and growing polarization of political viewpoints in the United States. Given these turbulent conditions, the State must be prepared to weather the

worst on its own because the federal government may not be able to assist as generously in the future.

The purpose of this bill is to significantly build up the State's fiscal reserves by depositing \$1,000,000,000 into the EBRF for fiscal year 2021-2022. This deposit will bring the EBRF balance to approximately 14.7 percent of prior year general fund revenues, which will provide a strong reserve for the future.

Additionally, this deposit will satisfy the requirement of article VII, section 6, of the Hawaii State Constitution, that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5 percent of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law.

The general fund balances for fiscal years 2019-2020 and 2020-2021 exceeded 5 percent of general fund revenues for fiscal years 2018-2019 and 2019-2020, respectively. The fiscal year 2019-2020 general fund end balance was \$1.003 billion or 12.7 percent of fiscal year 2018-2019 general fund revenues of \$7.917 billion, and the fiscal year 2020-2021 end balance was \$1.250 billion or 15.1 percent of fiscal year 2019-2020's revenues of \$8.285 billion.

While fiscal years 2019-2020 and 2020-2021 general fund balances were greater than 5 percent of general fund revenues, it is important to note that the fiscal year 2019-2020 general fund balance was adjusted to include certain transactions that were authorized for fiscal year 2019-2020, but processed in fiscal year 2020-2021. Due to a combination of timing issues with the enactment of the

authorizing legislation and accounting system limitations, those transactions were processed in fiscal year 2020-2021, but for the purposes of the general fund financial plan, have been reflected as authorized in fiscal year 2019-2020.

Impact on the public: Recapitalizing the EBRF will further enhance the State reserves for times of unforeseen economic downturns and natural disasters.

Impact on the department and other agencies: The general fund appropriation will be made to the Department of Budget and Finance, which administers the EBRF.

GENERAL FUND: \$1,000,000,000 in fiscal year 2021-2022.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: BUF 101.

OTHER AFFECTED
AGENCIES: None.

EFFECTIVE DATE: Upon approval.