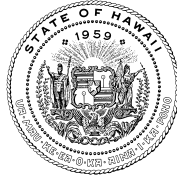


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GOVERNOR
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DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES | KA 'OIHANA LOIHELU A LAWELAWE LAULĀ
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WRITTEN TESTIMONY
OF
KEITH A. REGAN, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
COMMITTEE ON GOVERNMENT OPERATIONS

MARCH 14, 2024, 3:00 P.M.
CONFERENCE ROOM 225 AND VIA VIDEOCONFERENCE, STATE CAPITOL

H.B. 2238, H.D. 1

RELATING TO NON-GENERAL FUNDS.

Chair McKelvey, Vice Chair Gabbard, and Members of the Committee, thank you for the opportunity to submit testimony on H.B. 2238, H.D. 1.

H. B. 2238, H.D. 1 seeks to reclassify certain non-general funds of the Department of Accounting and General Services (DAGS or department), pursuant to the recommendations made by the auditor in auditor's report no. 23-17 (report).

Recommendations include reclassifying these trust accounts to being trust funds:

Refundable deposits-Public Works—Leasing Branch trust account, Refundable deposits-Public Works—Other than Leasing trust account, State Foundation on Culture and the Arts trust account, Temporary Deposits-Automotive Management trust account, and Temporary Deposits-Public Works trust account.

The department is providing **comments** that the department concurs with the findings of the auditor's report that the following trust accounts should be reclassified to trust funds: Refundable deposits-Public Works—Leasing Branch trust account, Refundable deposits-Public Works—Other than Leasing trust account, State Foundation on Culture and the Arts trust account, Temporary Deposits-Automotive Management trust account. The Temporary Deposits-Public Works trust account is inactive and has been closed.

Thank you for the opportunity to testify on this matter.

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Reclassify Funds of Department of Accounting and General Services

BILL NUMBER: HB 2238 HD 1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Reclassifies certain non-general funds of the Department of Accounting and General Services, pursuant to the recommendations made by the Auditor in Auditor's Report No. 23-17. Transfers to the general fund the excess balances of various non-general funds from various state departments and agencies.

SYNOPSIS:

Reclassifies the following DAGS accounts as trust funds: (1) The refundable deposits--public works--leasing branch trust account, administratively established in 2019; (2) The refundable deposits--public works--other than leasing trust account, administratively established in 2019; (3) The state foundation on culture and the arts trust account, administratively established in 1984; (4) The temporary deposits--automotive management trust account, administratively established in 1996; and (5) The temporary deposits--public works trust account, administratively established in 1988.

Transfers or abolishes the following funds or amounts or so much thereof as may be necessary for fiscal year 2024—2025 from the following funds to the general fund: (1) [unspecified]; and (2) [unspecified].

EFFECTIVE DATE: July 1, 3000.

STAFF COMMENTS: 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.

Because of the spotlight on monies in special funds, HRS section 23-12 requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and at five-year intervals. This bill was the result of Auditor’s Report No. 23-17.

We note that the language added by the House Finance Committee would make this a “raid bill” to raid the specified funds (none have been specified yet) and transfer any designated balances to the general fund.

We cannot argue with the proposition that excess balances in special funds should be repurposed first before reducing core services or increasing taxes.

Appropriation is not supposed to be difficult. Lawmakers, with the help of our Council on Revenues, figure out how much money we're expected to collect. They listen as the various executive agencies and departments show them what their respective programs have achieved for the people of Hawaii. Lawmakers then decide which programs and services are worthy of how much of our hard-earned taxpayer dollars, and off we go for another fiscal year.

This, however, isn't enough for some people (or departments), who are absolutely fixated on securing a "dedicated funding source" for their favorite program or department. A dedicated funding source usually means setting up a special fund, which is tougher to police using the appropriation process, and a grab on tax revenues before they can be counted with the rest of state realizations during the budgeting processes. Dedicated funding sources can and do protect inefficient or questionable programs and expenditures.

Legislators argue that the Legislature exercises more than adequate oversight over these special funds even though they aren't covered in the normal appropriation process. But how does that explain findings like the State Auditor's Report No. 20-06, which found more than \$75 million in accounts associated with inactive special or revolving funds? Or Report No. 20-07, which found tens of millions of dollars in special funds that swelled in size over the years, indicating an imbalance between the so-called dedicated funding source and the programs and services it was supposed to fund? Or Report No. 20-08, which built on Report No. 20-06 and made the bold statement, "More than \$483 million in excess moneys may be available to be transferred from 57 special and revolving fund accounts to the General Fund without adversely affecting programs"?

The continued existence of a program or service is supposed to be earned. If a program or service efficiently delivers value to the people of Hawaii, then it is worthy of our continued support. It's not supposed to be forced by tax grabs, special funds, and other gimmicks. We need to start recognizing that this "dedicated funding source" rhetoric is taking us down the wrong path.

Digested: 3/11/2024