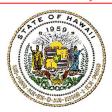
LATE *Testimony submitted late may not be considered by the Committee for decision making purposes

JOSH GREEN, M.D. GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA





STATE OF HAWAI'I | KA MOKU'ĀINA 'O HAWAI'I **DEPARTMENT OF LAND AND NATURAL RESOURCES** KA 'OIHANA KUMUWAIWAI 'ĀINA

P.O. BOX 621 HONOLULU, HAWAII 96809

DAWN N.S. CHANG

CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
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RYAN K.P. KANAKA'OLE FIRST DEPUTY

CIARA W.K. KAHAHANE DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES BOATING AND OCEAN RECREATION BUREAU OF CONVEYANCES COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES
ENFORCEMENT
ENGINEERING FORESTRY AND WILDLIFE HISTORIC PRESERVATION KAHOOLAWE ISLAND RESERVE COMMISSION LAND STATE PARKS

Testimony of DAWN N. S. CHANG Chairperson

Before the House Committee on FINANCE

Tuesday, February 4, 2025 9:00 AM State Capitol, Conference Room 411, and Videoconference

In consideration of **HOUSE BILL 653** RELATING TO NON-GENERAL FUNDS

House Bill 653 proposes to close or reclassify certain non-general funds of the Department of Land and Natural Resources, pursuant to certain recommendations made by the State Auditor in Auditor's report No. 24-08. The Department of Land and Natural Resources (Department) provides the following comments.

The Department of Land and Natural Resources has already implemented the Auditor's recommendations in consultation with the State Auditor's Office. It was determined that the changes can be done administratively, eliminating the need for this bill.

Mahalo for the opportunity to provide testimony of this measure.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Closes or Reclassifies DLNR Non-General Funds

BILL NUMBER: HB 653

INTRODUCED BY: HASHEM

EXECUTIVE SUMMARY: Closes or reclassifies certain non-general funds of the Department of Land and Natural Resources, pursuant to certain recommendations made by the Auditor in Auditor's Report No. 24-08.

SYNOPSIS: Abolishes the "Assistance in Managing Land Fund Trust Fund", administratively established in 2007. Any unencumbered balance shall lapse to general fund.

Reclassifies the "Donations, Gifts and Grants from Private and Governmental Entities Trust Account," administratively established in 1988, as a trust fund.

Reclassifies the "Land and Natural Resources Natural Physical Environment Special Fund", administratively established in 2000, as a trust account.

Reclassifies the "Land Division- Water Monitoring Services" trust account, administratively established in 1979, as a trust fund.

Abolishes the "Native Resources and Fire Protection Program Trust Fund", administratively established in 2012. Any unencumbered balance shall lapse to the Endangered Species Trust Fund established under section 195D-31, HRS.

EFFECTIVE DATE: July 1, 2025.

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. 24-08.

Re: HB 653 Page 2

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: 2/1/2025