

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Special and Revolving Funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism

Summary

In Act 240, SLH 1990, the Legislature directed the Auditor to evaluate all special and revolving funds in existence as of July 1, 1990, and to review legislation proposing new funds. Special and revolving funds are financing mechanisms created outside the general fund to support specific programs and activities. The Legislature voiced its concern about the growing numbers of these funds and their effect on the fiscal integrity of the State. Of approximately 140 existing funds, 75 were created within the past eight years. This represents more than a 100 percent increase over all previous years.

Experts have questioned the benefits of special funds. As larger sums of money are set aside in this way and not lapsed to the general fund, there can be a cumulative effect on the overall financial condition of government. Special funds can give agencies full control of these unappropriated cash reserves, provide a way to skirt the general fund expenditure ceiling, and over time erode the general fund. The experts say that special funds are likely to hamper budget administration. From a legislative perspective, they are less desirable because they are not fully controlled by the appropriations process and thus lessen the Legislature's control of the budget.

This review was of 35 special and revolving funds within or administratively attached to two agencies: The Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism. In evaluating the funds, we used two criteria provided by Act 240—whether the fund continues to serve the purpose for which it was originally created and whether it reflects a clear link between the benefit sought and charges made upon the beneficiaries of the program. To these we added a third—that the fund demonstrate the capacity to be financially self-sustaining.

We recommended repeal for 16 funds and continuation for 19. For 5 that should be continued, we recommended that consideration be given to transferring unneeded cash to the general fund. We also recommended that one fund be considered for sunseting in the future. We recommended that an initial advance to the Homes Revolving Fund of \$120 million be returned to the general fund.

Recommendations and Response

Housing Finance and Development Corporation. Of the corporation's 13 funds, we recommended that 9 be continued and 4 be repealed. Of those to be continued, we recommended that unneeded cash in the Housing Development Revolving Fund be transferred to the general fund and a \$120 million cash advance in the Homes Revolving Fund be returned to the general fund. The corporation concurred with most of our recommendations, but says that the repeal of the Rental Assistance Revolving Fund should be delayed pending the outcome of proposed legislation. It says that the repeal of the State Mortgage Guaranty Fund should also be delayed pending a study being undertaken pursuant to House Concurrent Resolution No. 357. Finally it says that transfer of excess cash from the Hawaii Development Revolving Fund should be delayed pending the establishment of a rental housing trust fund.

Department of Business, Economic Development, and Tourism. Of the department's 22 funds, we recommended that 12 be repealed and 10 be continued. We recommended that consideration be given to the transfer of unneeded cash from Foreign Trade Zones Special Fund, the State Disaster Revolving Fund, and the Hawaii Large and Small Fishing Vessel Loan Revolving Funds to the general fund. Consideration should be given to sunsetting the Hawaii Small Fishing Vessel Loan Revolving Fund in the future. The department concurs with 8 of our recommendations. It agrees that the Commercial Loan Guarantee Reserve Fund and the Special Fund for Out-of-State Offices should be repealed and that 6 others should be continued. The department also concurs with our recommendation to continue 4 other funds, but disagrees with the recommendations to return unneeded cash from these funds to the general fund. It also disagrees with the recommendation that consideration be given to sunsetting the Hawaii Small Fishing Vessel Loan Revolving Fund. It disagrees with our recommendations to repeal 10 funds, some of which have never been established or used. The department's disagreement is based on programmatic issues loosely connected to using special and revolving funds as a means of financing the programs.

As required by Act 240, the Department of Budget and Finance was provided a copy of this report for review and comment. The Department of Budget and Finance concurs with the other responses. The department states that special and revolving funds should be self-sustaining and program beneficiaries should pay for the program. In this regard the department believes that program evaluations need to be performed to ascertain that the program is meeting its legislatively mandated purpose, and, therefore, whether special or revolving funds are still warranted.

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