

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## A Study of Special Fund Assessments and Reimbursements

### Summary

The Legislature requested this study of the special fund assessment requirements under Sections 36-27 through 36-30, HRS to determine the rationale for the assessments and to evaluate their impact upon the operations of the special funds.

Unless exempted, special funds are annually assessed for two kinds of expenses incurred by state government in maintaining those funds. Chapter 36 thus assesses the special funds for: (1) government-wide central services expenses, and (2) administrative expenses of the department that houses the fund.

We found that it is appropriate to assess special funds for central services expenses and departmental administrative expenses. All special funds incur central services expenses and departmental expenses that are paid for from general fund revenues. The general fund should not have to absorb central services costs incurred by special funds. Departments should not have to assume administrative costs on behalf of special funds.

We also found that the two assessment formulas need to be reviewed. Neither formula is linked to actual costs and no formal estimate of central services costs or departmental administrative costs has been made.

The assessments should apply to all special funds, to trust funds, and to revolving funds. All such funds incur central services and departmental costs which should be reimbursed. There is no clear reason for exempting any of these funds from the assessments. Finally, all departments should comply with the Chapter 36 requirements. We found that the Department of Hawaiian Homes Lands was not in compliance with the Chapter 36 requirements. The department owes an estimated \$1 million for central services costs for FY1992-93.

### Recommendations and Response

We recommend that the Legislature consider amending Sections 36-27 and 36-30, HRS to: (a) remove all exemptions of special funds from the statutory assessments for central services and departmental administrative costs; and (b) include all revolving and trust funds other than those that already pay all

of their operating costs. We further recommend that the Legislature amend statutes establishing special, revolving, and trust funds to remove their specific exemptions from Sections 36-27 and 36-30, HRS.

In addition, we recommend that the Department of Budget and Finance establish a sound methodology for reasonably estimating central services expenses and departmental costs associated with the special funds, trust funds, and revolving funds. The department should also develop clear and consistent guidelines for calculating reimbursements to the general fund.

Finally, we recommend that the Department of Hawaiian Home Lands be required to transfer past due assessments to the general fund.

The Department of Budget and Finance concurs with the two recommendations specifically directed at it. The department will review the current assessment formulas and evaluate the options in pursuing alternative formulas. The department will also review its current guidelines for calculating reimbursements to the general fund and discuss those guidelines with the departments to ensure clarity and consistency in the reimbursement calculations.

The Department of Hawaiian Home Lands does not agree with our finding that its five special funds are subject to the assessments under Sections 36-27 and 36-30, HRS. The department argues that the five funds are not subject to the assessments because: (1) the assessments violate the provisions of the Hawaiian Homes Commission Act, 1920, as amended (HHCA), the Admission Act, and the Hawaii State Constitution; (2) the funds are trust funds to be used exclusively for the benefit of native Hawaiians, the beneficiaries of the Hawaiian Home Lands Trust; and (3) any transfer to the General Fund contradicts the intent of Article XII, Section 1 of the State Constitution. The department has requested an Executive Order suspending the application of the two assessments against its funds. We believe the department's funds should be subject to the assessments.