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Only one of 81 funds proposed during the past two legislative sessions has met the statutory criteria for establishing special or revolving funds.

# A Mixed Bag: Study of Proposed Special and Revolving Funds

2015 Legislative Session, March 2015

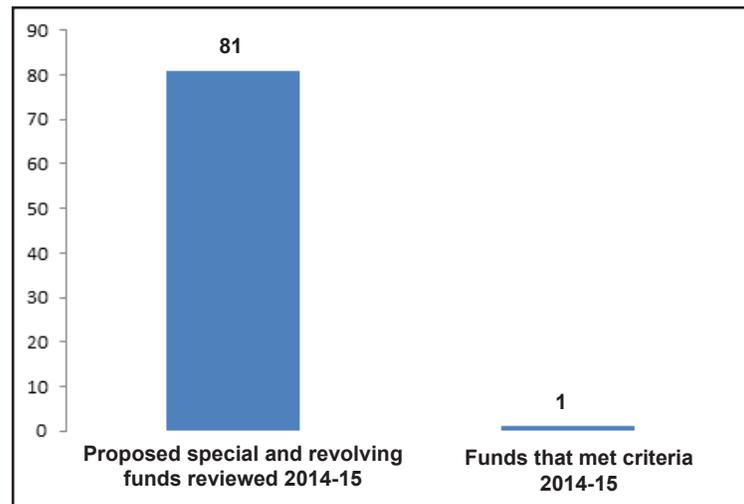
*Ninety-eight percent of proposed funds reviewed fail criteria*

Legislation adopted to promote the efficient allocation of public funds between general fund and special, revolving, and trust funds seems to be having an impact. Only one of 44 new special and revolving funds proposed during the 2015 legislative session met amended statutory criteria for establishing such funds. In 2014, none of the 37 funds proposed met the criteria.

## Statutory Requirements

Section 23-11, Hawai'i Revised Statutes (HRS), requires the Auditor to analyze all bills proposing to establish new special or revolving funds according to specific criteria. Almost no current bills have met criteria amended in 2013.

### Few proposed funds have met criteria under Act 130, Session Laws of Hawai'i 2013



## Background on Proposed Fund Analyses

The Legislature in 2013 amended Section 23-11, HRS, after the Auditor recommended these changes to stem an alarming trend. Over the previous 30 years, a proliferation of special and revolving funds had eroded the Legislature's ability to control the state budget through the general fund appropriation process.

General funds, which made up about two-thirds of state operating budget outlays in the late 1980s, had dwindled to about half of outlays. Much of the trend was caused by an increase in special funds, which are funds set aside by law for a specified object or purpose. By 2011, special funds amounted to \$2.48 billion or 24.3 percent of the State's \$10.2 billion operating budget. Also ballooning were revolving funds, which are funds used to pay for goods and services; these funds are replenished through charges made for the goods and services or through transfers from other accounts or funds. By 2011, revolving funds made up \$384.2 million or 3.8 percent of the State's operating budget.

Further hampering the Legislature's control over the budget process was a 2008 court case. In *Hawai'i Insurers Council v. Linda Lingle, Governor of the State of Hawai'i*, the Hawai'i Supreme Court determined that under only certain conditions could the Legislature raid special funds in order to balance the state budget. In 2013, in order to gain more flexibility over the budget process, the Legislature built new safeguards into the criteria for establishing special funds.



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## The Issue

Non-general funds, such as special, revolving, federal, and trust funds, exist outside the State's main financial account, or general fund. Over the past 30 years, the number of non-general funds and the amount of money contained in them have substantially increased. In FY2011, non-general funds accounted for about half of the State's \$10.4 billion operating budget, up from one-third in 1992. This proliferation of non-general funds has hampered the Legislature's ability to direct general fund spending.

- At least 729 non-general funds and accounts held an estimated unencumbered cash balance of \$2.47 billion.
- Between 1980 and 2010, the number of special and revolving funds almost tripled to 313 funds.
- Fund raids authorized by the Legislature in FY2009, FY2010, and FY2011 totaled \$161 million.

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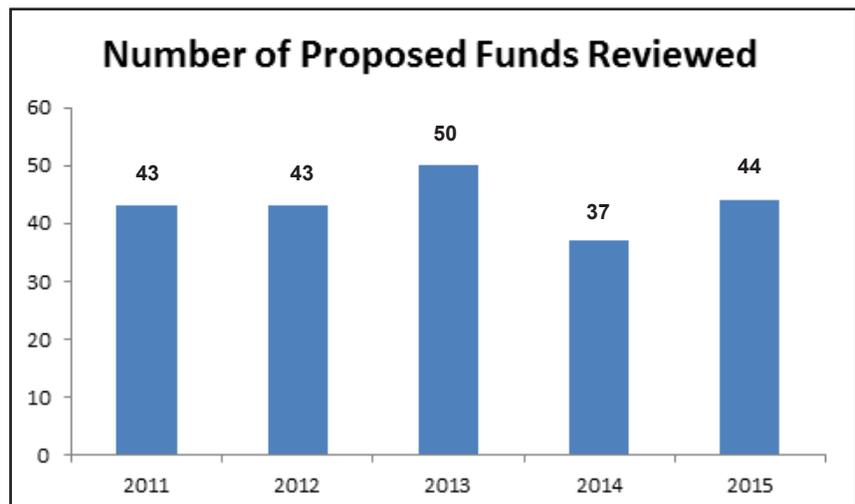
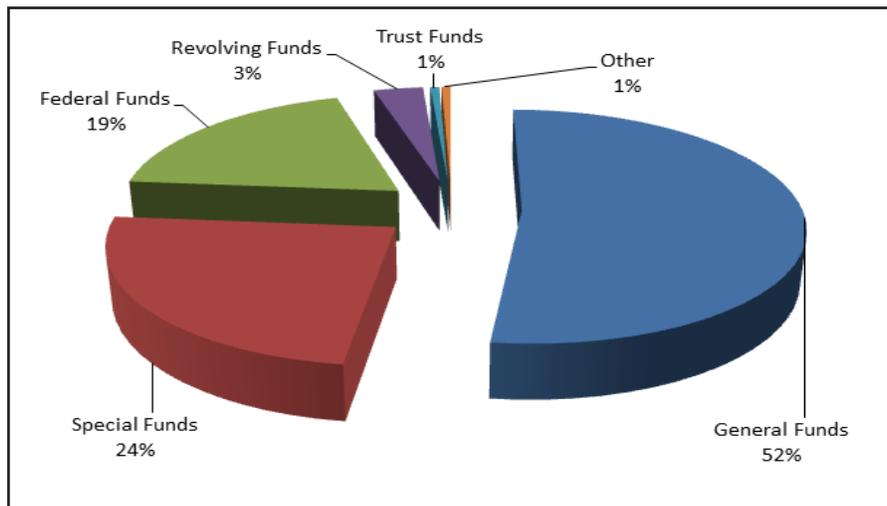
The statute requires the Auditor to use the following criteria to analyze each proposed fund:

1. The need for the fund, as demonstrated by:
  - The purpose of the program to be supported by the fund;
  - The scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and
  - An explanation of why the program cannot be implemented successfully under the general fund appropriation process; and
2. Whether there is a clear nexus between the benefits sought and charges made upon the program users or beneficiaries or a clear link between the program and the sources of revenue, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriation process.

In addition, the analysis seeks to determine whether the fund can be financially self-sustaining, as required by sections 37-52.3 and 37-52.4, HRS.

The result: Only one of 81 funds proposed during the past two legislative sessions has met the statutory criteria for establishing special or revolving funds. However, special funds persist: since FY2005, the general fund has comprised approximately 50 percent of the State operating budget, with special funds comprising 19 percent to 25 percent.

## Role of All Funds in FY2014 Executive Branch Operating Budget



In 2011 and 2012, there were 43 new funds proposed in each of those years. After spiking to 50 in 2013, the number dropped to 37 in 2014 and rose to 44 in 2015. However, as discussed above, only one of the 81 funds proposed in 2014 and 2015 met the criteria established in 2013.