

Office of the Auditor  
465 S. King Street  
Rm. 500  
Honolulu, HI 96813  
Ph. (808) 587-0800

Jan K. Yamane  
Acting State Auditor  
State of Hawai'i

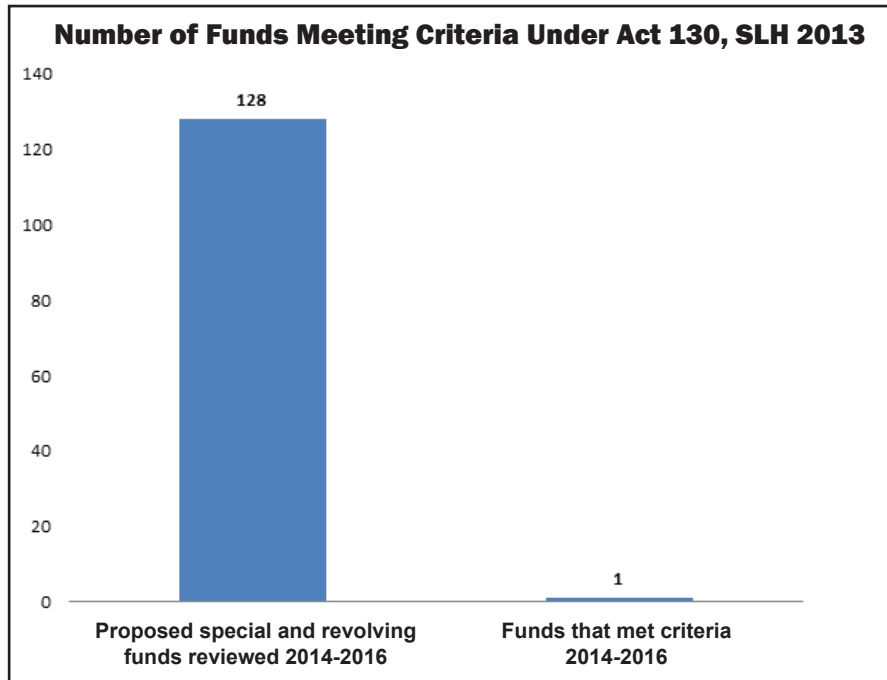
**Only one of 128 funds proposed during the past three legislative sessions has met the statutory criteria for establishing special or revolving funds.**

# Overview of Proposed Special and Revolving Fund Analyses

2016 Legislative Session, March 2016

*None of the 2016 proposed funds reviewed met 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. None of the 47 new special and revolving funds proposed during the 2016 legislative session met amended statutory criteria for establishing such funds. Only one fund in the past three years has met the criteria.

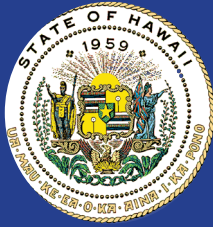


## A proliferation of funds

In 2013, the Legislature amended Section 23-11, HRS, after the Auditor recommended changes to stem a trend in the proliferation of special and revolving funds over the past 30 years. Such funds erode 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 used to pay for goods and services and are replenished through charges to users of the goods and services or 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 state Supreme Court determined that under only certain conditions could the Legislature "raid" special funds to balance the state budget. In 2013, in order to gain more control 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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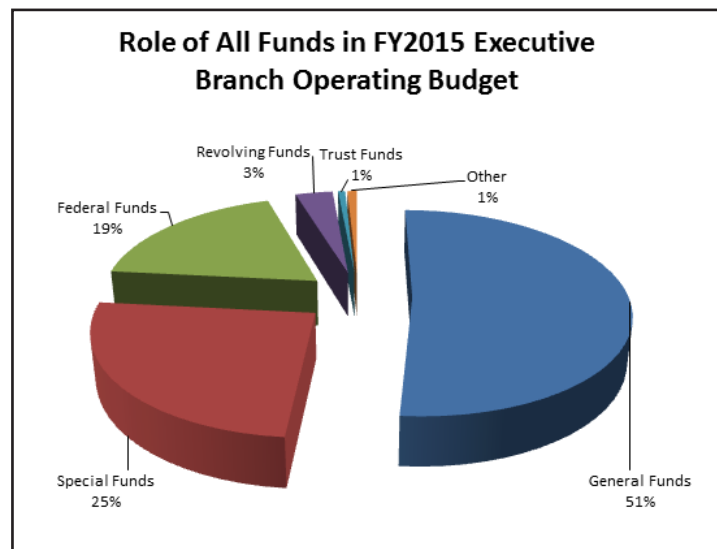
## The new criteria

Section 23-11, HRS, requires the Auditor to analyze all bills proposing to establish new special or revolving funds according to the following criteria:

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, each analysis must seek to determine whether the proposed fund can be financially self-sustaining, as required by Sections 37-52.3 and 37-52.4, HRS.

Despite the new criteria, special and revolving funds persist: in FY2015, the general fund comprised approximately 51 percent of the State operating budget, with special and revolving funds comprising 28 percent.



In 2012, there were 43 new funds proposed, increasing to 50 in 2013. Although the number dropped to 37 in 2014, it has increased in each of the past two years, 44 in 2015 and 47 in 2016.

