
Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 91-10
February 1991



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance

Summary

In Act 240, the Legislature directed the auditor to evaluate all special and revolving funds existing 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.

Special and revolving funds have proliferated in recent years in Hawaii. Of approximately 130 existing funds, 67 were created within the past seven years alone, representing a more than 100 percent increase over all previous years.

This year we reviewed 25 special and revolving funds that come under the purview of three executive departments. We recommended repeal for 13 and continuation for 12. They ranged from revolving funds that support the state parking control program, to funds supporting special agricultural programs. Fund balances ranged from \$64.2 million for the State Educational Facilities Improvement Fund to \$31,080 for the King Kamehameha Celebration Fund.

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.

Recommendations and Response

Department of Accounting and General Services. Of the department's twelve funds, we recommended that seven be repealed, three continued, and two modified. The department concurred with eight of our recommendations, but did not concur with our recommendation to repeal four of the funds.

Department of Agriculture. Of the department's nine funds, we recommended that three be repealed and six continued. The department concurred with all of our recommendations to continue, but did not concur with two of our recommendations to repeal.

Department of Budget and Finance. Of the department's four funds, we recommended that three be repealed and one continued. In one case, the department did not concur with our recommendation to repeal. It also noted that it supported the two other departments in their opposition to certain of our recommendations.

Background

Many experts have questioned the benefits of special funds. Over time, 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 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. Many experts say that special funds are likely to hamper budget administration. And from a legislative perspective, they are less desirable because they are not fully controlled by the appropriations process.

The concern expressed in Act 240 is not new. Prior to statehood, the Territorial Legislature had similar concerns. Following a study that recommended abolition of many funds, the Legislature in the Budgetary Control Act of 1957 abolished a number of funds and placed special funds under budgetary controls similar to those governing the general fund.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 91-10
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Foreword

In Act 240, SLH 1990, the Hawaii Legislature requested the auditor to review over a five-year period all special and revolving funds existing as of July 1, 1990. This first year's review is of those funds administered by or administratively attached to the Department of Accounting and General Services, the Department of Agriculture, and the Department of Budget and Finance. The purpose of the review is to assess whether each department's special or revolving funds should be continued, modified, or repealed. As required by the act, we have included our recommended legislation at the end of the report.

The auditor was assisted in this review by the certified public accounting firm of KPMG Peat Marwick. We join KPMG Peat Marwick in acknowledging the excellent cooperation extended by officials and staff of the agencies during this first review. We also extend our appreciation for the valuable assistance provided by staff of the National Conference of State Legislatures and the Hawaii Tax Foundation and to the Legislative Reference Bureau, which drafted the recommended legislation.

Newton Sue
Acting Auditor
State of Hawaii

February 1991

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Chapter 1

Introduction

This is a report on our review of special and revolving funds in the Department of Accounting and General Services, the Department of Agriculture, and the Department of Budget and Finance. The review comprises the first of a series directed by Act 240, *Session Laws of Hawaii 1990*, and scheduled over the next four years.

The Legislature in Act 240 expressed concern about maintaining the fiscal integrity of the State when fluctuations in the economy affect general fund revenues. Special and revolving funds receive their revenues without consideration of the State's overall financial condition. The Legislature felt it was fiscally prudent to request the auditor to evaluate existing special and revolving funds and to review legislation proposing new ones.

Objectives of the Review

1. To develop criteria for evaluating the appropriateness of existing and new special and revolving funds.
2. To evaluate the funds of three specified departments against the criteria.
3. To recommend whether the funding should be continued, modified, or repealed.

Scope of the Review

Act 240 schedules all special and revolving funds in existence as of July 1, 1990, to be reviewed, except those in the Executive Office of the Governor and its agencies, the Office of the Lieutenant Governor, the Department of Hawaiian Home Lands, and the Office of Hawaiian Affairs. Those to be reviewed this year include funds directly administered by the departments of accounting and general services, agriculture, and budget and finance, or by agencies administratively attached to them (except the Housing Finance and Development Corporation, which will be reviewed next year).

In our review, we did not consider the value of a program, the quality of its management, or whether the program deserved to be continued. Our focus was on the appropriateness of special funding *as a means of financing the particular program.*

Method of the Review

In framing the criteria for evaluating special and revolving funds, we were guided by the concerns of Act 240. We researched the legislative history of each fund, and we reviewed the administrative rules, previous departmental reports, audit reports, the comptroller's annual report, program and financial plans, variance reports, and budget requests as they pertained to each fund. We considered the laws on the financial administration of the State (Title V, *Hawaii Revised Statutes*) and the history of special fund legislation in Hawaii. Our literature search included relevant reports, books, and articles on the principles and practices of special and revolving funds in Hawaii, in other states, and in the federal government.

We contacted the Hawaii Tax Foundation, National Conference of State Legislatures, Council of State Governments, National Association of State Budget Officers, and other relevant agencies for pertinent information on the use of special and revolving funds. Where possible, these contacts included personal and telephone interviews. Finally, we reviewed materials on state and local fund accounting and financial reporting and also spoke with persons knowledgeable in these areas.

To meet the objectives of evaluating each fund and recommending repeal, continuation, or modification, we engaged the services of certified public accountants who verified each fund's financial status. We also interviewed personnel of the Department of Budget and Finance, who gave their views on fund operations and the consequences of abolishment.

Our work was performed from April 1990 through September 1990 in accordance with generally accepted government auditing standards.

Organization of the Report

Chapter 1 is this introduction. Chapter 2 presents principles and practices on special and revolving funds. Chapter 3 describes the criteria used to evaluate them. Chapter 4 presents findings and recommendations on the funds in the Department of Accounting and General Services. Chapter 5 presents findings and recommendations on the funds in the Department of Agriculture. Chapter 6 presents findings and recommendations on the funds in the Department of Budget and Finance.

Chapter 2

Background on Special and Revolving Funds

Section 37-62, *Hawaii Revised Statutes*, defines special funds as those “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” It defines revolving funds as those “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which [are] replenished through charges made for the goods and services or through transfers from other accounts or funds.”

Special and revolving funds are therefore financing mechanisms created outside the general fund to provide ongoing support for specific activities or programs. While most special funds are designed to be self-sustaining, some receive regular subsidies from the general fund. Revolving funds are a type of special fund that replenishes itself through charges to a specific group of users. Revolving funds are often established with an appropriation of seed money from the general fund.

Loss of Budgetary Control

From the perspective of those who manage special fund programs, such funds are highly desirable. They guarantee funding and provide agencies with the flexibility to spend excess money without seeking legislative appropriations. From a legislative perspective, however, special funds are less desirable. They guarantee for a program a continuing source of revenue that is not fully controlled by the appropriations process.

Concerns about budgetary control through the use of special funds are not new. A 1961 report on special funds in the 50 states noted that special fund activity had grown to such an extent that many governors and legislatures had “lost control of the planning of expenditures.”¹ Special funds led to (1) lack of an accurate accounting for state resources, (2) excess cash reserves held in special fund accounts, and (3) the practice of earmarking resources instead of budgeting for expenditures. The report called for a comprehensive statement on existing practices and criteria to help states eliminate unjustified special funds while maintaining those which are clearly legitimate. Needless special funds had undermined the authority of state legislatures, and the report recommended that such funds should be eliminated. If not eliminated, the funds should at least be included in the executive budget and appropriated by the legislature. In view of these concerns, many states in the early 1960s greatly reduced their reliance on special funding.

At the federal level, a report on revolving funds published in 1977 by the General Accounting Office noted similarly that congressional control over a program is lessened when the program is financed as a revolving fund.² This is because revolving funds can expend moneys without congressional review. The report concluded that the public interest is best served when congressional control over activities is exercised through the appropriations process by regular reviews of, and direct actions on, programs and financing requirements. Departure from this standard should be permitted only when it can be shown “*that an activity cannot be successfully operated in the public interest within the appropriation process* (emphasis added).”

Hawaii’s Budgetary Control Act of 1957

More than thirty years ago, the 28th Territorial Legislature enacted a law that placed “all special funds under legislative and executive budgetary control in the same manner as the general fund.”³ Act 320, *Session Laws of Hawaii 1957*, provided that transfers could be made from special funds to the general fund of moneys not spent beyond fiscal year requirements. Act 320 also requested from the Territorial Bureau of the Budget a study of all special and revolving funds.

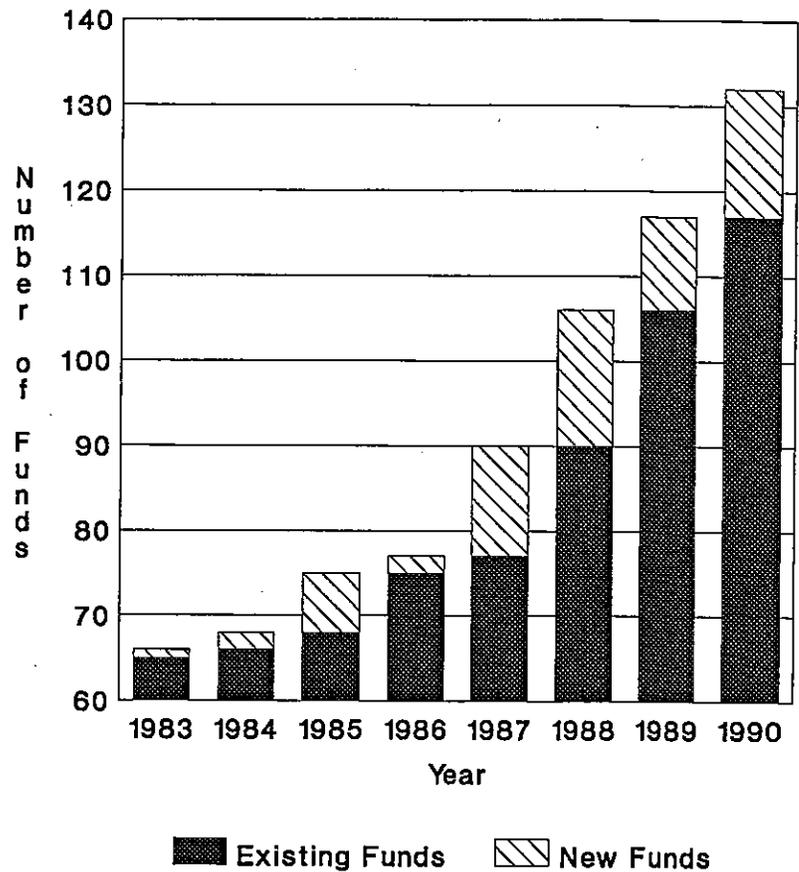
In 1959, the budget bureau contracted the Public Administration Service (PAS) to conduct the study.⁴ In addressing the use of special funds, the PAS report concluded that “the effects of special fund financing are such that the device should be avoided in all operations other than enterprises and peripheral functions.”⁵ Subsequently, the 1959 Territorial Legislature approved Act 265, which abolished many special funds and directed the affected programs to be budgeted through the general fund.

Recent Proliferation of Special Funds

The proliferation of special funds over the last seven years has again given rise to legislative concern. During this period, 67 new special or revolving funds have been created by statute, representing a more than 100 percent increase over the previous years.⁶ See Figure 2.1.

The increasing number of special funds has a cumulative effect on the overall financial condition of the State. Special funds give agencies full control over their unappropriated cash reserves, provide a means to avoid the general fund expenditure ceiling, and over time erode the general fund.

Figure 2.1
Special and Revolving Funds
Created Since 1983



Agency control of unappropriated cash reserves

Section 37-53, HRS, allows special fund programs to transfer excesses beyond fiscal year requirements to the general fund. Agencies, however, rarely use this provision, allowing cash reserves to accumulate in many special funds even after the legislative spending authorization has lapsed. These cash reserves are available to the agency for spending because of a budget proviso allowing the governor to approve increases in the expenditure ceilings of special and revolving funds.⁷ With these reserves, a special fund program can exceed its fiscal year appropriation without further legislative authorization.

Avoidance of the expenditure ceiling

A primary issue debated during the 1978 Constitutional Convention was whether to limit government expenditures, and if so, whether to limit only general fund expenditures or all state

**Erosion of the
general fund
through
earmarking**

expenditures. It was argued then that placing a limit solely on general fund expenditures could have the effect of "shifting expenditures to special revenue funds, creating new special revenue funds (unless there is some constitutional restriction against their creation), or forcing those programs which are not self-sustaining to increase their own program revenues."⁸ The amendment adopted by the convention and subsequently ratified by the electorate applied the ceiling only to general fund expenditures and did not include special funds. As predicted in 1978, the number of special funds increased markedly during the past two fiscal years when the general fund expenditure ceiling was exceeded.

In recent years especially, some special funds have been created by earmarking general fund appropriations. Earmarking is the practice of designating certain taxes or fees to support specific activities on a continuing basis. It is based on the premise that in certain circumstances government services should be paid for by those who directly benefit from them. Revenues are earmarked from the certain taxes and diverted to special funds *before* funds are appropriated for general fund programs.

Hawaii's 1989 Tax Review Commission voiced concerns in a study on special funds and their impact upon Hawaii's overall financial condition. The commission criticized special funds created for specific programs or activities when there is no direct link between the sources of the revenues and the program. It cited, for example, the educational facilities improvement special fund, which earmarks a total of \$630 million in general revenues over seven years.⁹

A recent report by the National Conference of State Legislatures, which discusses the dynamics of earmarking practices within the fifty states, noted that earmarking hinders budgetary control by legislatures because it automatically dedicates revenues to programs. When funding is automatic, programs do not undergo the same degree of legislative scrutiny exercised over general fund programs. Further, earmarking distorts the distribution of funds. It is often arbitrary, with little connection between the source of revenue and the service provided. The absence of this link can result in a special program having either deficits or reserves. In the event of shortfalls in general revenues, a special fund program can tie up funds that may be needed in other areas.¹⁰

The primary consideration for lawmakers on this practice is how to weigh legislative control of the budget against administrative flexibility for the program. The NCSL report concludes that "earmarking is more likely to hamper than assist state budgetary design and management."¹¹

Chapter 3

Criteria for Reviewing Special and Revolving Funds

Act 240, *Session Laws of Hawaii 1990*, establishes two criteria to be used in reviewing whether a particular special and revolving fund should be continued, modified, or repealed. These criteria are the extent to which the fund:

1. Continues to serve the purpose for which it was originally created; and
2. Reflects a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support which is removed from the normal budget and appropriations process.

In addition to the two criteria, the act allows other criteria to be applied. From our review of the public finance literature, we believe that a third criterion should be the extent to which the fund:

3. Demonstrates the capacity to be financially self-sustaining.

Fund Should Serve Original Purpose

The first criterion is to determine the extent to which the fund continues to serve the purpose for which it was originally created. Enabling legislation usually identifies the purpose for establishing a special or revolving fund. Our review will determine whether the purpose of the fund is still applicable.

Circumstances and conditions, which originally provided the rationale and need for the creation of a special or revolving fund, may have changed. In such a case, the fund may now be serving some purpose other than the purpose for which it was created. The Legislature may agree that the current purpose satisfies a current need. If so, it would be appropriate for the Legislature to decide whether the statutes should be amended to update the purpose of the fund or whether some other financing arrangements should be made.

Changed circumstances and conditions could also have the effect of negating the need for the fund and rendering it inactive. Such a situation would indicate strongly that the fund should be discontinued.

Fund Should Have Clear Link Between Benefits and Charges

The second criterion emphasizes that the fund should have a clear link between program benefits and program charges. The firmest example of this is when a program has the capacity to generate revenues, and the revenues, in turn, are used to support the program. This practice flows from the benefit theory of finance, which holds that those who benefit from the program should be the same persons to pay for the program. Special and revolving funds that operate under this theory are more defensible than those which do not.

As stated in the law, the criterion would challenge a fund which is used--not to link user benefits and user charges--but to serve primarily as a means to provide the program and its users with an automatic means of support. An example of such a fund is one which is financed through the earmarking of taxes that are not levied specifically on program beneficiaries but which are broadly based and fall generally on all taxpayers.

Fund Should Be Financially Self-Sustaining

Related to the second criterion is the concept that special or revolving funds should demonstrate the capacity to be financially self-sustaining. The most defensible fund is one which derives all of its revenues through fees or taxes on the specific users of the program and which can meet all of its expenditures through its own revenues.

In effect, a special or revolving fund earns its status by being self-sustaining. A fund which must rely on periodic infusions of general fund appropriations to make up for insufficient program revenues has less reason to be accorded special status. It could just as well be funded entirely through the general fund appropriations process.

The major precedent in Hawaii state government for applying the self-sustaining standard is in the exemption of certain general obligation bonds from the constitutional debt limit. Under the State Constitution, reimbursable general obligation bonds may be exempt from the debt limit to the extent that the particular special fund responsible for repayment is self-sustaining. If the special fund is fully self-sustaining--capable of meeting all of its operating costs as well as repaying the general fund for debt service--all of the

bonds may be exempt from the debt limit. In essence, the debt limit exemption is "earned" when a fund can demonstrate its self-sustaining capacity.

Similarly, a fund should "earn" its status as a special or revolving fund through a demonstration that it has the capacity to meet all of its operating expenditures through its own program revenues.

Chapter 4

Department of Accounting and General Services

This chapter presents our findings and recommendations on each of twelve special and revolving funds administered by the Department of Accounting and General Services (DAGS). The five special funds and seven revolving funds are discussed in alphabetical order. For each we make a recommendation for disposition, present the purpose of the fund, and give the basis for our recommendation. We evaluate neither the program nor its management, nor do we assess whether or not the program should be continued. Our focus is on the appropriateness of a special or revolving fund being the means of financing a particular program.

Summary of Recommendations

1. Central Purchasing Revolving Fund. Repeal and budget through the general fund.
2. King Kamehameha Celebration Fund. Repeal and budget through the general fund.
3. Public Improvement Revolving Fund. Repeal and lapse balance to general fund.
4. Stadium Special Fund. Continue. Stadium Authority should plan to finance capital improvements projects from this fund.
5. State Educational Facilities Improvement Fund. Repeal.
6. State Motor Pool Revolving Fund. Continue.
7. State Parking Control Fund. Continue but modify.
8. State Parking Revolving Fund. Continue but modify.
9. State Risk Management Revolving Fund. Repeal and budget through the general fund.
10. State Surplus Property Revolving Fund. Repeal and budget through the general fund.
11. Surplus Federal Property Revolving Fund. Continue.
12. Works-of-Art Special Fund. Repeal.

**Central
Purchasing
Revolving Fund
Section 106-15, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	10,810
Revenues		27,730
Expenditures		25,218
Ending Balance	\$	13,322

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to finance bulk purchases of supplies and commodities used by state agencies, thereby saving money for the State. We find that this fund is not being used for its intended purpose. Currently, the department only uses the fund to purchase standard forms, which it then resells to state agencies at the bulk rate. It does not purchase other supplies or commodities through this fund, because agencies now obtain the benefits of bulk purchases through the use of price lists. This fund does not meet the criterion that a fund should serve its original purpose, and it therefore should be repealed. The department can budget through the general fund for the purchase of standard forms and then distribute them as needed to the agencies.

**King
Kamehameha
Celebration
Fund
Section 8-5, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	66,623
Revenues		71,541
Expenditures		107,084
Ending Balance	\$	31,080

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to receive donations and appropriations and to pay the expenses of the volunteer commission that organizes the annual June 11 celebration honoring King Kamehameha I. The fund does not meet the second and third criteria. It is supported primarily through the general fund and is not self-sufficient. For FY1989-90, revenues of \$71,541 were comprised of \$300 in donations and the balance from general fund appropriations. There is no link between the benefit sought and the charges made upon the users--this activity has no charges because it benefits the community at-large. The fund should therefore be repealed and the activities of the King Kamehameha Celebration Commission budgeted through the general fund.

**Public
Improvement
Revolving Fund
Section 107-8, HRS**

FINANCIAL DATA FOR FY1989-90

Beginning Balance	\$	15,000
Revenues		0
Expenditures		0
Ending Balance	\$	15,000

Recommendation: Repeal and lapse balance to general fund.

The original purpose of this fund was to defray the costs incurred in surveying land and in preparing plans and specifications for the construction of public improvements. It was supposed to be reimbursed out of the funds available for the particular public improvement. This fund, however, has not been used since the mid-1980s and is currently inactive. It therefore no longer serves the purpose for which it was originally created and should be repealed. The balance should be lapsed to the general fund.

**Stadium Special
Fund
Section 109-3, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	1,194,745
Revenues		14,988,610
Transfers		(3,129)
Expenditures		11,497,000
Ending Balance	\$	4,683,226

Recommendation: Continue. However, the Stadium Authority should make plans to finance capital improvement projects from this fund.

The original purpose of this fund was to hold revenues collected by the Stadium Authority and pay for the operation, maintenance, and management of the stadium and related facilities. This fund continues to serve the purposes for which it was originally created. The link between the benefit sought and charges made upon the users is direct--those who receive the benefits of a stadium pay fees for its use. This special fund is self-sustaining for its operating expenditures, although capital improvements up to now have been funded through other sources. This special fund meets all three criteria and should be continued. In the meantime, the authority should develop plans to meet at least a portion of its capital improvement expenditures from this fund.

**State
Educational
Facilities
Improvement
Fund
Section 36-32, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	0
General Excise Tax		
Revenues		90,000,000
Interest		3,102,205
Allotments to		
Project Accounts		28,906,075
Ending Balance	\$	64,196,130

Recommendation: Repeal.

The original purpose of this fund was to finance capital improvement projects for public schools and other facilities under the jurisdiction of the Department of Education. Revenues for this fund are derived from earmarking \$90 million each year from general excise tax revenues. The tax is levied on the general public rather than the specific beneficiaries of the program. The fund therefore does not meet the criterion that it reflect a direct link between user benefits and user charges. Contrary to the standard, the current financing mechanism serves primarily as a way to provide the program with an automatic means of support. This fund therefore should be repealed, and educational facilities should be funded through the normal capital improvements appropriations process.

**State Motor Pool
Revolving Fund
Section 105-11, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	704,555
Revenues		730,867
Transfers		(392,378)
Expenditures		726,501
Ending Balance	\$	316,543

Recommendation: Continue.

The original purpose of this fund was to finance the expenses of the State's motor pool. The expenses include the operation, maintenance, repair, and acquisition of vehicles owned by the State. The fund continues to serve the purpose for which it was originally created. The relationship between the benefit sought and the charges made upon the users is direct, because agencies are assessed fees for motor pool rentals which are then deposited into the revolving fund. This fund is also self-sufficient--it does not receive subsidies from the general fund. This fund therefore meets all three criteria and should be continued.

**State Parking
Control Fund
Section 39-62, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	139,656
Revenues		223
Transfers		2,074,153
Expenditures		1,981,559
Ending Balance	\$	232,473

Recommendation: Continue but modify.

The original purpose of this fund was to hold the revenue and the user taxes by which revenue bonds pertaining to the State's parking facilities are secured. It was established pursuant to Section 39-62, HRS, which requires that a separate fund be created to receive revenues for repayment of bond debt. The law also allows these funds to be used to support the operation and maintenance of the facilities. The link between users and charges is direct, and the fund is self-sufficient. However, in addition to serving its original purpose, this fund now also covers payroll, transfers to public works for additional parking, and repairs and maintenance of facilities. It shares these functions with the State Parking Revolving Fund discussed next. We therefore recommend that this fund be continued but consolidated with the State Parking Revolving Fund.

**State Parking
Revolving Fund
Section 107-11, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	7,581,023
Revenues		2,061,494
Transfers		(6,681,775)
Expenditures		0
Ending Balance	\$	2,960,742

Recommendation: Continue but modify.

The original purpose of this fund was to finance the cost of paving parking areas, purchasing and installing parking meters, and operating parking facilities on state land. The fund clearly meets the second and third criteria. The benefit sought and charges made upon the users are directly linked. Those who use parking areas either pay a monthly fee or pay parking meters, and these fees are then deposited into the fund. The fund is self-sufficient and requires no appropriation from the general fund. However, while this fund is intended to receive revenues from and cover all expenses of state parking facilities and programs, it currently serves merely as a

holding account for revenues from parking rentals and meter tolls. The Parking Control Fund previously discussed is now being used to cover payroll expenses, interest expenses, transfers to public works for additional parking, and repairs and maintenance on facilities. We therefore recommend that the Parking Revolving Fund and the Parking Control Fund be consolidated.

**State Risk
Management
Revolving Fund
Section 41D-4, HRS**

Financial Data for FY1989-90

Beginning Balance	\$ 2,571,984
Revenues	6,350,859
Expenditures	4,128,912
Ending Balance	\$ 4,793,931

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to support the expenses of state risk management and insurance administration, including the payment of claims for self-insured losses and the purchase of commercial insurance coverage. The law says the department may assess each state agency its pro-rata share of the costs of risk management based upon its history of losses. The department, however, is not assessing agencies except for losses involving state-owned vehicles of programs not funded by the general fund. There is thus no direct link between the benefit sought and charges made upon the users. Further, the fund is supported primarily by the general fund, and the department does not expect it to be self-sustaining in the near future. The fund therefore meets neither the second nor third criterion and should be repealed. The department should budget for risk management and insurance administration expenses through the general fund.

**State Surplus
Property
Revolving Fund
Section 106-23, HRS**

Financial Data for FY1989-90

Beginning Balance	\$ 23,205
Revenues	15,237
Transfers	0
Expenditures	7,594
Ending Balance	\$ 30,848

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to collect fees for the handling of surplus property belonging to the State. Although this fund meets all three criteria, the current level of activity is minimal. The fund's

only expense is to reimburse the federal surplus property program for the department's pro-rata share of administrative expenses. We therefore believe this fund is unnecessary and should be repealed. The department could budget for reimbursement of the federal program through the general fund.

**Surplus Federal
Property
Revolving Fund
Section 29-22, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	130,376
Revenues		108,240
Transfers		0
Expenditures		134,118
Ending Balance	\$	104,498

Recommendation: Continue.

The original purpose of this fund was to defray the costs of procuring, storing, handling, and disposing of surplus property donated to the State under federal laws. Pursuant to Public Law 94-519, revenues generated by the disposal of federal surplus property can only be used to support the federal program. The fund covers payroll expenses for both the federal and state surplus property programs; the State reimburses the fund for its share of operating costs. The fund continues to serve the purpose for which it was created. The benefit sought and the charges made upon the users are directly linked, because those who purchase federal surplus property are assessed a handling fee for its disposition. The fund is also self-sustaining and requires no general fund support. This fund meets all three criteria and should be continued.

**Works-of-Art
Special Fund
Section 103-8.5, HRS**

Recommendation: Repeal.

There were no financial data for FY1989-90 because plans are to commence operation in FY1990-91. The original purpose of this fund was to hold earmarked revenues from capital improvement projects (CIP) to acquire, commission, display, maintain, store, and transport works of art for the State's buildings. One percent of all CIP appropriations is earmarked for this purpose. The fund was created when the law providing for earmarking one percent of capital improvement project funding was expanded from new construction projects to include renovations and improvements. We found no link between the benefit sought and the charges made upon the users. This program benefits the community-at-large and not a specific group of users. Therefore, this fund does not meet the second

criterion. Further, the fund is not self-sustaining; it commits state revenues as an automatic means of support. This fund should be repealed. Portable works-of-art could be funded through general fund appropriations, and art projects for specific facilities could be funded as part of the capital investment appropriations for those facilities.

Chapter 5

Department of Agriculture

This chapter presents our findings and recommendations on each of nine special and revolving funds used in the Department of Agriculture. One fund is a special fund and eight are revolving funds. Two additional special funds, Detection of Nematodes in Plants and The Study of Atrazine Glyphosate on Tomatoes and Zucchini, were in the process of being terminated and therefore were not reviewed. Created administratively rather than by statute, the two funds were not properly established.

The funds are discussed in alphabetical order. For each, we make a recommendation for disposition, present the purpose of the fund, and give the basis for our recommendation. We evaluate neither the program nor its management, nor do we assess whether or not the program should be continued. Our focus is on the appropriateness of a special or revolving fund being the means of financing a particular program.

Summary of Recommendations

1. Agriculture Loan Reserve Fund. Continue.
2. Agriculture Loan Revolving Fund. Continue.
3. Agricultural Park Special Fund. Repeal and budget through the general fund.
4. Animal Industry Revolving Fund. Repeal.
5. Aquaculture Loan Reserve Fund. Continue.
6. Aquaculture Loan Revolving Fund. Continue.
7. Hawaii Agricultural Products Revolving Fund. Continue.
8. Irrigation System Revolving Fund. Repeal and budget through the general fund.
9. Marketing Order Revolving Fund. Continue.

**Agriculture Loan
Reserve Fund
Section 155-14, HRS**

Financial Data for FY1989-90

Beginning Balance	\$ 570,636
Receipts	1,853,898
Transfers	0
Expenditures	795,800
Ending Balance	\$ 1,628,734

Recommendation: Continue.

The original purpose of this fund was to collect all interest paid on the principal of loans made from the Agriculture Loan Revolving Fund and to service three other loan funds--the Agriculture Loan Revolving Fund, the Agriculture Products Revolving Fund, and the Aquaculture Loan Revolving Fund. This fund continues to serve the purpose for which it was originally created. Because those who receive loans support the administrative costs of the activity through interest payments, there is a direct link between benefits sought and charges made upon the users. This fund is also self-sustaining. It meets all three criteria and should be continued.

**Agriculture Loan
Revolving Fund
Section 155-14, HRS**

Financial Data for FY1989-90

Beginning Balance	\$ 7,466,194
Receipts	11,299,289
Transfers	0
Expenditures	10,488,522
Ending Balance	\$ 8,276,961

Recommendation: Continue.

The original purpose of this fund was to promote agricultural development by granting loans, securing credit for qualified farmers, and providing management advice. The fund continues to serve its purpose. During the past fiscal year, 60 loans were made totalling \$10,488,522. The relationship between benefits sought and charges made upon the users is direct--those who receive loans are required to pay the principal and interest. Except for large emergency loans to sugar companies that were subsidized by the general fund, the fund has been self sustaining. Repayments on principal are adequate to replenish the fund and to enable new loans to be made, thus this fund is self-sustaining. As required by the law, repayments on interest are credited to the Agriculture Loan Reserve Fund, which supports the operations of the Agriculture Loan Revolving Fund. This fund therefore meets all three criteria and should be continued.

**Agricultural Park
Special Fund
Section 166-10, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	72,039
Revenues		93,196
Expenditures		23,258
Ending Balance	\$	141,977

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to support agricultural parks. The fund was intended to cover the operation and maintenance of the parks. The Department of Agriculture services three agricultural parks on the island of Hawaii (Keahole, Paho, and Panaewa) which lease approximately 120 farming lots to various individuals. Currently, all of the lots are being leased.

The fund's revenues for FY1989-90 consisted of \$89,000 per year in lease rentals and interest income of \$4,000 on time certificates of deposit. Expenditures of \$23,256 are primarily for repair and maintenance and payments to the Office of Hawaiian Affairs for the use of ceded lands. This program also receives heavy support from the general fund to cover operating costs. For FY1989-90, general fund support amounted to more than \$90,000. Capital improvement projects for the program are also supported by the general fund.

This fund continues to serve the purposes for which it was originally created. There is a direct link between the benefits sought and the charges made upon the users; those who farm on the agricultural parks pay lease rents for their use. However, the fund is not operationally self-sustaining, the program being heavily subsidized by the general fund. The fund therefore does not meet the third criterion and should be repealed. The program should be budgeted through the general fund.

**Animal Industry
Revolving Fund
Section 142-24, HRS**

Recommendation: Repeal.

There is no record of this fund being activated. The original purpose of this fund was to provide the Department of Agriculture with capital to purchase curative serum, vaccine, and other remedies for the control and suppression of transmissible diseases among livestock. However, it was established in 1919 and never activated. This fund therefore should be repealed since it has never served the purpose for which it was originally created.

**Aquaculture
Loan Reserve
Fund
Section 219-4, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	29,509
Revenues		23,359
Expenditures		0
Transfers		(38,498)*
Ending Balance	\$	14,370

*To the Aquaculture Loan Revolving Fund.

Recommendation: Continue.

The original purpose of this fund was to receive moneys collected as interest and fees from loans made from the Aquaculture Loan Revolving Fund and to use such moneys to the extent needed to carry on the operations of the aquaculture loan program. Although activity is minimal, the fund continues to serve the purpose for which it was originally created. There is a direct link between benefits sought and charges made upon the users, because those who receive loans pay for the operations of the program. The fund is also self-sustaining. This fund therefore meets all three criteria and should be continued.

**Aquaculture
Loan Revolving
Fund
Section 219-4, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	280,628
Revenues		20,973
Expenditures		12,000
Transfers		38,498*
Ending Balance	\$	328,099

*From the Aquaculture Loan Reserve Fund.

Recommendation: Continue.

The original purpose of this fund was to support the development of the aquaculture industry by granting loans, securing credit for qualified applicants, and providing related financial management services. The fund supported two loans totalling \$175,000 in FY1988-89 and two loans totalling \$12,000 in FY1989-90. At least four loans totalling \$330,000 were disbursed or pending approval in the current fiscal year. The fund continues to serve its original purpose. It sustains itself through repayments on principal. There is a direct link between the benefits sought and charges made upon the users because those who receive loans must repay the principal and interest. Therefore, this fund meets all three criteria and should be continued.

**Hawaii
Agricultural
Products
Revolving Fund
Section 153-3, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	253,114
Revenues		25,138
Expenditures		25,000
Transfers		0
Ending Balance	\$	253,252

Recommendation: Continue.

The original purpose of this fund was to support zero interest loans in order to stimulate new agricultural crops and agricultural product activities and to encourage practical research in crop diversification and innovations in crop development. This fund made one loan for \$25,000 in fiscal year 89-90, one loan for \$122,000 in 88-89, and none in 87-88. Although activity is minimal, this fund is serving the purpose for which it was originally created. Repayments on previous loans replenish the fund and enable new loans. There is a direct link between the benefits sought and the charges made upon the users, because those who receive loans are required to repay the principal. The fund is also self-sustaining. Therefore, this fund meets all three criteria and should be continued.

**Irrigation
System
Revolving Fund
Section 167-22, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	0
Revenues		428,159
Expenditures		101,741
Transfers		268,097*
Ending Balance	\$	594,515

*From the Department of Land and Natural Resources.

Recommendation: Repeal and budget through the general fund.

The original purpose of this fund was to support the administrative costs and development of water conveyance projects for agricultural production. The fund was transferred in 1989 from the Department of Land and Natural Resources. The Department of Agriculture services three irrigation systems on Hawaii, Molokai, and Oahu, providing water services to over 400 farmers.

The fund meets the first criterion and continues to serve the purposes for which it was originally created. Expenditures of \$101,741 are comprised of the costs of electricity to pump water and the cost of a

new jeep. There is a direct link between the benefits sought and charges made upon the users. Revenues consist primarily of water sales to farmers amounting to \$209,000 and acreage assessments amounting to \$207,000.

This fund, however, does not meet the third criterion of being self-sustaining. The irrigation systems program is heavily supported by the general fund for operating costs. For FY1989-90, general fund support amounted to more than \$480,000. Capital improvement projects for this program are also supported through the general fund. The fund therefore should be repealed and the program budgeted through the general fund.

**Marketing Order
Revolving Fund
Section 163-31, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	215,130
Revenues		362,694
Expenditures		330,474
Ending Balance	\$	247,350

Recommendation: Continue.

The original purpose of this fund was to support inspection services for state and federal marketing order programs. Currently, papayas are the only commodity inspected under a marketing order.

This fund continues to serve the purpose for which it was originally created. There is a direct link between benefits sought and charges made upon the users because papaya farmers, who are required to have their produce inspected under the marketing order, are charged for such inspection services. The fund is also self-sustaining. Therefore, this fund meets all three criteria and should be continued.

Chapter 6

Department of Budget and Finance

This chapter presents our findings and recommendations on each of four special and revolving funds used in the Department of Budget and Finance. Three are special funds and one is a revolving fund. A fifth fund acts as a holding account for the State's FICA contributions, which are eventually paid into a depository for the Internal Revenue Service. Since this fund is in reality an agency fund, we have excluded it from the scope of this review.

The funds are discussed in alphabetical order. For each fund, we make a recommendation for disposition, present the purpose of the fund, and give the basis for our recommendation. We evaluate neither the program nor its management, nor do we assess whether or not the program should be continued. Our focus is on the appropriateness of a special or revolving fund being the means of financing a particular program.

Summary of Recommendations

1. County Special Fund for Certification and Payment of County Contributions to the Pension and Retirement System. Repeal through appropriate legislation proposed by the department.
2. Hawaii Information Network Fund. Repeal.
3. State Telecommunications Site and Equipment Maintenance Revolving Fund. Repeal and budget through the general fund.
4. Veterans' Bond Fund. Continue.

County Special Fund for Certification and Payment of County Contributions to the Pension and Retirement System Section 88-126, HRS

Recommendation: Repeal through appropriate legislation proposed by the department.

This fund is inactive. The original purpose of this fund was to hold county employees' retirement contributions for deposit into the State Employees' Retirement System. This procedure, however, has been discontinued for many years. Under the current procedure, the counties make direct payments to the retirement system. The fund therefore no longer serves its purpose and should be repealed. Since Section 88-126, HRS, contains other provisions which may still be applicable, we recommend that the department review this section and propose appropriate legislation to delete the special fund and reflect current procedures.

**Hawaii
Information
Network Fund
Special Fund
Section 206P-7, HRS**

Recommendation: Repeal.

This fund has not yet been activated. The intended purpose is to support development and expansion of the telecommunications infrastructure serving Hawaii. The fund is supposed to enable private information service providers to link up with the State's information network and to provide potential users access to information.

Because the fund has not been activated, we could not assess whether it met the first criteria of continuing to serve its purpose. To date the program has no detailed plan describing sources of revenue, required subsidies from the general fund, or projections of self-sufficiency. The current business plan under "assessing market opportunities" merely states that "supply creates demand" and "the development of the market must be aggressively pursued." Revenues are expected to be generated from consulting services provided to public and private agencies. However, as currently planned, this program is to be a general development program of the State, supported in most part from the general fund. Therefore, this fund does not meet the third criterion of having the capacity to be operationally self-sustaining. We recommend its repeal.

**State
Telecommunications
Site and
Equipment
Maintenance
Revolving Fund
Section 106-16, HRS**

Recommendation: Repeal and budget through the general fund.

This fund has not yet been activated. The intended purpose is to support maintenance of radio transmitter and receiver facilities located on premises owned or controlled by the State. Facilities will provide telecommunication services for state, federal, and county agencies.

Currently, there are ten facilities on Oahu, Hawaii, Maui, Kauai, and Lanai which are supported through the general fund. Proposals for the special fund indicate that some revenues are to be generated from user charges which will be assessed to non-state agencies such as the police and fire departments, Federal Bureau of Investigation, and U.S. Coast Guard. Charges will be based upon radio usage of the transmitting facilities by the agencies, but the program expects to continue to receive general fund support. The fund therefore does not meet the third criterion of having the capacity to be operationally self-sustaining. The fund should be repealed, its activities budgeted through the general fund, and its fees deposited into the general fund.

**Veterans' Bond
Fund
Section 364-9, HRS**

Financial Data for FY1989-90

Beginning Balance	\$	158,893
Revenues		140,520
Expenditures		7,903
Transfers		(158,893)*
Ending Balance	\$	132,617

*Excess lapsed to the general fund.

Recommendation: Continue.

The original purpose of this fund was to service all mortgages made or purchased under veterans loans program as provided under Chapter 364, HRS. The fund continues to meet the purpose for which it was established; its charges are directly linked to users; and the fund is self-sustaining. The fund receives all moneys from the veterans' mortgage loan program, including fees, charges, realizations from foreclosures, and mortgage payments. The fund pays principal and interest on bonds issued under the chapter and pays the expenses of the director in administering this chapter. Currently, the fund activity consists primarily of mortgage loan repayments. All debt service on general obligation bonds issued for the program have been repaid. As of June 30, 1990, there were 95 outstanding loans and the last mortgage loan will expire in 1994. Excess balances are regularly lapsed to the general fund. The fund therefore meets all criteria and should be continued.

Notes

Chapter 2

1. Hugh J. Reber, *State Special Funds: A Background Study of Criteria*, Griffenhagen-Kroeger, Inc., San Francisco, California, 1961, p. i.
2. General Accounting Office of the United States, *Revolving Funds: Full Disclosure Needed for Better Congressional Control*, a report to the House Committee on the Budget, Washington, D.C., GA1.13:PAD-77-25, p. 86.
3. Act 320, SLH 1957.
4. The Public Administration Service, *Special Funds and Budget Administration in the Territory of Hawaii: A Survey Report*, Chicago, 1959.
5. *Ibid.*, p. 18.
6. Based upon data collected from Ho'ike searches.
7. Section 263, Act 316, SLH 1989.
8. Hawaii, Legislative Auditor, *Hawaii Constitutional Convention Studies, 1978, Article VI: Taxation and Finance*, Honolulu, Hawaii, 1978, pp. 20-21.
9. Marcia Y. Sakai, "Special Funds," *Tax Review Commission Working Papers and Consultant Studies*, Honolulu, Hawaii, v. 2, December 1989, pp. 31-40.
10. The National Conference of State Legislatures, *Earmarking State Taxes*, Second Edition, Denver, Colorado, 1990, pp. 13-16.
11. *Ibid.*, p. 21

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this study to the departments of accounting and general services, agriculture, and budget and finance on January 4, 1991. A copy of the transmittal letter is included as Attachment 1. The responses from the three departments are included as Attachments 2, 3, and 4, respectively.

The Department of Accounting and General Services concurred with our recommendation to repeal the Central Purchasing Revolving Fund, the Public Improvement Revolving Funds and the State Surplus Property Revolving Fund and to continue the Stadium Special Fund, the State Motor Pool Revolving Fund, the State Parking Control Fund, the State Parking Revolving Fund, and the Surplus Federal Property Revolving Fund. It did not concur with our recommendation to repeal the King Kamehameha Celebration Fund, the State Educational Facilities Improvement Fund, the State Risk Management Revolving Fund, and the Works-of-Art Special Fund.

The Department of Agriculture concurred with our recommendation to repeal the Animal Industry Revolving Fund and to continue the Agriculture Loan Reserve Fund, the Agriculture Loan Revolving Fund, the Aquaculture Loan Reserve Fund, the Aquaculture Loan Revolving Fund, and the Hawaii Agricultural Products Revolving Fund. It did not concur with our recommendation to repeal the Agricultural Park Special Fund and the Irrigation System Revolving Fund. We noted the department's comments regarding the Marketing Order Revolving Fund and we have amended the report to recommend that the fund be continued.

The Department of Budget and Finance concurred with our recommendation to repeal the County Special Fund for Certification and Payment of County Contributions to the Pension and Retirement System and the State Telecommunications Site and Equipment Maintenance Revolving Fund and to continue the Veterans' Bond Fund. The department did not concur with our recommendation to repeal the Hawaii Information Network Fund Special Fund. The department also supported the opposition of the Department of Accounting and General Services and the Department of Agriculture to certain recommendations in the report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813



(808) 548-2450
FAX: (808) 548-2693

January 3, 1991

C O P Y

The Honorable Russel S. Nagata
State Comptroller
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

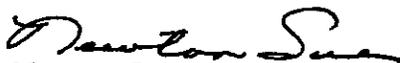
Dear Mr. Nagata:

Enclosed are three copies, numbers 6 to 8 of our draft report, *Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance*. The special and revolving funds in your department are discussed in Chapter 4. We ask that you telephone us by Tuesday, January 8, 1991, on whether you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Thursday, January 17, 1991.

The Chairperson of the Board of Agriculture, the Director of Finance, the Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,


Newton Sue
Acting Legislative Auditor

Enclosures

JOHN WAIHEE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES

P. O. BOX 119
HONOLULU, HAWAII 96810-0119

RUSSEL S. NAGATA
COMPTROLLER

James Yasuda
DEPUTY COMPTROLLER

January 16, 1991

RECEIVED
JAN 16 11 59 AM '91
OFC. OF THE AUDITOR
STATE OF HAWAII

Mr. Newton Sue
Acting Legislative Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for allowing us the opportunity to review and respond to the draft report of the "Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance".

As noted in your report, the findings and recommendations of the special and revolving funds pertaining to the Department of Accounting and General Services are discussed in Chapter 4 and to which our following comments are directed on a fund by fund basis.

1. Central Purchasing Revolving Fund, Section 106-15, HRS

Auditor's Recommendation: Repeal and budget through the General Fund.

Comment: Department concurs, however, we must ensure there is adequate funding provided for shipping costs; increased program changes, resulting from form revisions and new forms; and increased agency demands.

There are also certain forms agencies purchase directly from the State Correctional Industries as well as forms printed by Correctional Industries, but stocked and sold by our Central Purchasing. Under a General Funded standard forms program, agencies will receive forms at no cost from Central Purchasing, but pay for forms from the Correctional Industries unless Central Purchasing stocks and issues all forms. If we are required to stock and issue all forms, our budget requirements will increase drastically, and additional storage space and personnel will be needed.

2. King Kamehameha Celebration (Special) Fund, Section 8-5, HRS

Auditor's Recommendation: Repeal and budget through the General Fund.

Comment: The Department opposes the recommendation. The original purpose of the King Kamehameha Celebration Fund was to receive donations and to collect fees from certain activities, that would in turn, be used to fund special programs or events without having to seek additional funds from the Legislature to stage them. An example of one of these special events was a running race held in conjunction with the parade on Oahu. Fees collected were used to offset expenses incurred in staging this activity. In addition, donations for pa'u riders in particular, have been sought and used by the riders to offset the expenses of participating in the parade.

The 1991 Celebration marks the 75th anniversary of the Oahu parade. In an effort to expand activities of the celebration and to better inform the general public on the purposes, history, and activities of the King Kamehameha Celebration, the Commission plans to publish a souvenir program which would feature historical data, color photographs, demographics about the State, and a calendar of statewide events, the cost of which would be underwritten by donations and fees accumulated in the Fund.

3. Public Improvement Revolving Fund, Section 107-8, HRS

Auditor's Recommendation: Repeal and lapse balance to General Fund.

Comment: Department concurs.

4. Stadium Special Fund, Section 109-3, HRS

Auditor's Recommendation: Continue. However, the Stadium Authority should make plans to finance capital improvement projects from this fund.

Comment: The Department supports the recommendation that the Stadium Special Fund be continued as it meets all criteria set by the Auditor. However, we do not support the contention that the Stadium Authority finance all capital improvement projects (CIP) from the Stadium Special Fund.

As stated in Section 109-3, HRS, funds collected by the Authority shall be used to pay for the operation, maintenance and management of the Stadium and related facilities. The budgeting practice of the Stadium Authority demonstrates strict adherence to this mandate. To the extent that revenues permit, lesser capital improvements to the facility have and will continue to be financed through the Stadium Special Fund.

The expectation that the Stadium could support major CIPs is unrealistic and would seriously jeopardize its ability to provide for the recreational and entertainment needs of the people of Hawaii. To generate sufficient revenues for this undertaking would require an astronomical, across-the-board increase in rental fees. The negative impact of such a move would de facto prohibit most college and all high school events and discourage commercial as well as fund-raising usage. The end result would be a stadium with an enormous fee schedule and little or no scheduled events.

5. State Educational Facilities Improvement Special Fund, Section 36-32, HRS

Auditor's Recommendation: Repeal (and educational facilities should be funded through the normal capital improvements appropriations process).

Comment: The Department opposes the Auditor's recommendation. The State Educational Facilities Improvement Special Fund was established by Act 368, SLH 1989, to specifically earmark \$90 million of general excise tax revenues on an annual basis for seven years to fund capital improvements and repairs of the State's public school facilities. The Legislature had determined that the quality of public education in our State is directly related to the condition of our public school facilities and had found that an extraordinary amount (over \$800 million) of funding was needed to improve their deteriorated condition brought about by years of neglect and to address changing enrollment needs.

In a broad sense, linkage between benefits and charges can be made that the Fund uses general tax revenues to support the State's public schools facilities, which directly benefits all residents and taxpayers who choose to enroll their children in our public schools.

Although the funding mechanism does provide an automatic means of support which the Auditor uses to disqualify its Special Fund status, the State Educational Facilities Improvement Special Fund was established to insure that a dedicated, consistent funding source is available over a period of seven years to be used to improve the poor condition of our schools and to address enrollment needs, thereby providing an environment conducive to learning for our students. By dedicating a portion of the general excise tax revenues, the public schools' capital improvement and repair projects would not be adversely impacted by fluctuating economic conditions and changing priorities of the Administration or Legislature.

Also, by utilizing the Fund, it was projected that the Fund would earn sufficient investment income to cover the \$170 million in additional revenues needed to complete the \$800 million worth of capital improvements and repair projects. It was further projected that a billion dollars of debt service costs would be avoided by not funding the projects through the issuance of general obligation bonds.

It is ironic that the recommendation to repeal the Fund is in direct conflict with the intended purpose of the Act and reflects the concerns that many supporters of the Act had clearly meant to overcome less than two years ago.

6. State Motor Pool Revolving Fund, Section 105-11, HRS

Auditor's Recommendation: Continue.

Comment: Department concurs.

7. State Parking Control (Special) Fund, Section 39-62, HRS

Auditor's Recommendation: Continue but modify (by consolidation with the State Parking Revolving Fund).

Comment: (Refer to State Parking Revolving Fund for Comment.)

8. State Parking Revolving Fund, Section 107-11, HRS

Auditor's Recommendation: Continue but modify (by consolidation with the State Parking Control Fund).

Comment: The Department supports consolidation of the State Parking Control Fund under the State Parking Revolving Fund.

9. State Risk Management Revolving Fund, Section 41D-4, HRS

Auditor's Recommendation: Repeal and budget through the General Fund.

Comment: The Department opposes the Auditor's recommendation.

Recognizing the volatile and unpredictable nature of losses and their potential to adversely impact the financial and operational integrity of the State Government, the State Risk Management Revolving Fund (SRMRF) was created with the passage of Act 266, SLH 1988. The SRMRF is intended to accumulate reserves to reduce the possibility of having a major financial crisis should catastrophic losses occur in any fiscal period, since State Government has very limited means for increasing resources in a relatively short period in which government service must be recovered or restored. The accumulation of self-insured funds and proceeds received from insurance claims avoids diversion of scarce General Fund resources or issuing of bonds to meet "emergency" capital appropriation. Recognizing the potential for abuses of funds accumulated, the Fund is restricted from being used for other than its stated purpose.

Until the establishment of the SRMRF, there was no viable fund to prospectively account for the recovery or replacement of catastrophic losses. General Fund appropriations were made on a reactive basis. Payments of losses were handled on a first-come, first-paid basis without recognition of accumulation of losses or of the impact the lack of funds had on government service.

Further, because of the lack of accountability in the way payment of losses had been provided in lump-sum appropriations, the Act provides the Comptroller with the authorization to use the SRMRF to assess the departments for their proportionate share of losses. Holding departments responsible for their losses is a powerful loss prevention tool, especially considering that heretofore the departments have not had any compelling reason to worry about the financial consequences of losses and the need to take aggressive measures to minimize losses. The departments must now answer to the approving authorities when financing their loss assessments.

Lack of "seed" money for the Fund and historical loss data on a statewide basis have delayed the implementation of the Comptroller's authorization to make assessments. Plans call for the SRMRF to be fully operational by fiscal biennium 1993-1995. The Department recommends that the SRMRF be given the opportunity to develop into what the Act had intended. The Fund has only been in existence since July 1988, and under the circumstances described above, could not be fully implemented.

Further, consideration should also be given to the recently issued statement of the Governmental Accounting Standards Board on risk financing and related insurance issues. The SRMRF will be required to operate under strict accounting and financial reporting standards.

The repeal of the State Risk Management Revolving Fund and return to budgeting through the General Fund would seriously undermine the Department's endeavor to account for the fortuitous or accidental losses of the State, to require accountability from the departments for excessive losses, and to minimize the disruption of government service.

10. State Surplus Property Revolving Fund, Section 106-23, HRS

Auditor's Recommendation: Repeal and budget through the General Fund.

Comment: Department concurs, however, our concurrence is conditional and based on the Surplus Federal Property Revolving Fund (refer to item 11.) also receiving General Fund support. Attempting to operate two similar programs where one is free of service and handling charges to public donees will detract from the other and cause confusion for the donees. With General Fund support, service and handling fees would be charged only to private donees, and deposited in the State Treasury as General Fund revenues.

11. Surplus Federal Property Revolving Fund, Section 29-22, HRS

Auditor's Recommendation: Continue.

Comment: The Department partially concurs with this recommendation. The Surplus Federal Property Revolving Fund does not meet at this time the third criterion of a revolving fund, which is to demonstrate the capacity to be financially self-sustaining. Revenues received from the service and handling fees charged to eligible donees have not been sufficient to cover administrative and operational costs since Fiscal Year 1988. The fund lost \$10,944 in Fiscal Year 1989 and \$21,619 in Fiscal Year 1990. The projected loss for the first two quarters of Fiscal Year 1991 is \$21,588. Carryover balances from prior years have enabled the Fund to cover such losses thus far. Increased operational and administrative costs coupled with a decline in the quantity and quality of surplus property available from Federal sources are expected to continue this trend.

Financing the administrative costs of the Surplus Federal Property Program with support from the General Fund would allow the use of revenue generated from service and handling fees charged only to eligible private donees to be used for the upgrade/replacement of facilities, equipment, and vehicles.

12. Works-of-Art Special Fund, Section 103-8.5, HRS

Auditor's Recommendation: Repeal (with portable works of art could be funded through General Fund appropriations and art projects for specific facilities could be funded as part of the capital improvement appropriations for those facilities).

Comment: The Department opposes the Auditor's recommendation.

Act 389, SLH 1989, establishing the Works-of-Art Special Fund, was passed in order to resolve chronic problems related to the administration of the art-in-State buildings law of 1967. Because the amounts allocated for works of art came from the construction cost element of CIP appropriations, the State Foundation on Culture and the Arts (SFCA) could not begin to develop art projects for buildings until after the buildings' construction contracts were awarded. Under the original art-in-State buildings law, amounts set aside for the acquisition, transportation, exhibition and conservation of works of art had to be encumbered or expended by the lapse dates of the applicable CIP construction appropriations.

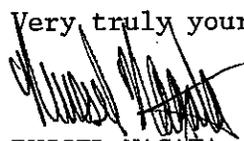
This was impractical because the timetable followed by the implementing CIP divisions of our Department and the Departments of Land and Natural Resources and Transportation for any particular building often left the SFCA with less than one month to plan, budget, approve and initiate a project; appoint an art advisory committee; select an artist; and negotiate and process an agreement for a work of art.

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January 16, 1991

The Fund enables the SFCA to work with the appropriate departments and to develop art projects during the planning and design stages of building projects, thus, ensuring the integration of the work of art with the building's architecture. It also enables the SFCA to plan and provide for works of art statewide at older, established buildings which previously could not qualify for public art projects.

We again thank you for giving us the opportunity to review and comment on the report.

Very truly yours,



RUSSEL NAGATA
Comptroller

cc: Office of the Governor

ATTACHMENT 3

JOHN WAIHEE
GOVERNOR



YUKIO KITAGAWA
CHAIRPERSON, BOARD OF AGRICULTURE

ILIMA A. PIANAIA
DEPUTY TO THE CHAIRPERSON

FAX: 548-6100

Mailing Address:
P. O. Box 22159
Honolulu, Hawaii 96823-2159

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 So. King Street
Honolulu, Hawaii 96814-2512

January 22, 1991

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OFF. OF THE AUDITOR
STATE OF HAWAII

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for the opportunity to comment on your draft report, Review of Special and Revolving Funds of the Department of Accounting and General Services, Agriculture, and Budget and Finance.

We provide the following comments on your findings and recommendations in Chapter 5 of the report on the nine funds used by the Department of Agriculture.

1. Agriculture Loan Reserve Fund, Section 155-14, HRS
Auditor's Recommendation: Continue.
Comments: The department concurs with the recommendation.
2. Agriculture Loan Revolving Fund, Section 155-14, HRS
Auditor's Recommendation: Continue.
Comments: The department concurs with the recommendation.
3. Agricultural Park Special Fund, Section 166-10, HRS
Auditor's Recommendation: Repeal and support through the general fund.
Comments: The department does not concur with the recommendation.



The Agricultural Park Special Fund was initially created under the Department of Land and Natural Resources by Act 163, SLH 1985, to deposit proceeds from State designated agricultural parks. The proceeds are used to cover the cost of operating and maintaining these parks. Pursuant to Act 222, SLH 1986, the agricultural park responsibilities, the fund and its balances was transferred in May 1988 to the Department of Agriculture. In 1989, the agricultural park lease management functions was transferred from the Planning and Development Office to the Agricultural Resource Management Division within the Department of Agriculture. These changes over the past five years have prevented the full development of the agricultural park program and therefore limited the capacity for the special fund to be self-sustaining.

Currently, the department administers four agricultural parks and will be assuming four more agricultural parks by the end of June 1991. The department's aggressive approach in developing State agricultural parks will enable the program to operate on a self sustaining basis in the near future. However, it is not anticipated that the program would be able to support major capital improvement projects. In order to generate sufficient revenues to fund these capital improvement projects, the department would be required to substantially increase the lease rental fees assessed on the farmers. The department would be unable to ensure economically viable farm operations, provide lands at reasonable cost with long term tenure and security from urbanization pressure, and encourage farm production and distribution economies as intended by the legislature when the program was established.

The repeal of the fund and the funding of the program entirely through general funds will diminish the legislature's ability to identify the program as one serving a specific purpose and assessing those who benefit from the program a user fee. The inclusion of the Agricultural Park Special Funds in the Executive Budget for the fiscal biennium 1991-93 by this department ensures the appropriate review and budgetary controls by the Executive and Legislative Branches, and provides easy identification of the program's funding sources in relation to the cost of operating the program.

This department would like the opportunity to develop the agricultural park program and operate the fund on a self sustaining basis and therefore recommends that any action to repeal the fund be deferred.

4. Animal Industry Revolving Fund, Section 142-24, HRS
Auditor's Recommendation: Repeal.
Comments: The department concurs with the recommendation.
5. Aquaculture Loan Reserve Fund, Section 219-4, HRS
Auditor's Recommendation: Continue.
Comments: The department concurs with the recommendation.
6. Aquaculture Loan Revolving Fund, Section 219-4, HRS
Auditor's Recommendation: Continue.
Comments: The department concurs with the recommendation.
7. Hawaii Agricultural Products Revolving Fund, Section 153-3, HRS
Auditor's Recommendation: Continue.
Comments: The department concurs with the recommendation.
8. Irrigation System Revolving Fund, Section 167-22, HRS
Auditor's Recommendation: Repeal and support through the general fund.
Comments: The department does not concur with the recommendation.

The Irrigation System Revolving Fund was initially created under the Department of Land and Natural Resources to deposit proceeds from the State's four irrigation systems. The proceeds are used to cover the cost of operating and maintaining these irrigation systems. Pursuant to Act 306, SLH 1987, the irrigation system responsibilities, the fund and its balances was transferred to the Department of Agriculture. This transfer was finally executed in July 1989. The department has had very little time to assess the program and the status of its fund, and just recently transferred the program's computer billing and accounts receivable system from the Department of Land and Natural Resources.

The repeal of the fund and the funding of the program entirely through general funds will diminish the legislature's ability to identify the program as one which serves a specific purpose and assesses those who benefit

from the program a user fee. This program operates like a utility company in that it provides agricultural water to farming communities who depend on water for its survival. The nature of this operation requires access to a continuous funding source to address emergency situations such as disasters, droughts, and unforeseen events. Repeal of the fund will jeopardize the program's ability to respond to these emergencies and make necessary repairs.

The continued inclusion of the Irrigation System Revolving Funds in the Executive Budget for the fiscal biennium 1991-93 by this department ensures the appropriate review and budgetary controls by the Executive and Legislative Branches, and provides easy identification of the program's funding sources in relation to the cost of operating the program. In an effort to attain self sufficiency, a general fund reduction was made to the program's FB 1991-93 operating budget.

The department has been reviewing the program and the fund in an effort to operate on a self sustaining basis in the future. However, it is not anticipated that the program would be able to support major capital improvement projects. In order to generate sufficient revenues to fund these capital improvement projects, the department would be required to substantially increase the water and acreage fees assessed on the farmers utilizing the irrigation systems. This action would jeopardize the department's ability to fully develop agriculture and the State's economy as intended by the legislature when the program was established.

This department would like the opportunity to develop the irrigation system program and operate the fund on a self sustaining basis and therefore recommends that any action to repeal the fund be deferred.

9. Marketing Order Revolving Fund, Section 163-31, HRS

Auditor's Recommendation: Repeal and support through the general fund.

Comments: The department does not concur with the recommendation.

The Marketing Order Revolving Fund was created under the Department of Agriculture by Act 41, SLH 1972, to deposit proceeds derived from inspection services provided under a marketing order. These proceeds are expended to cover the costs of providing inspection services for State and Federal marketing order programs.

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January 22, 1991
Page 5

A State or federal marketing order may be issued to growers of an agricultural commodity by the Board of Agriculture pursuant to Chapter 163, HRS, Hawaii Agricultural Marketing Act, or the Secretary of Agriculture, pursuant to the federal Agricultural Marketing Act, upon request by the industry and upon meeting the various criteria of the respective Act. Currently, papayas are the only commodity inspected under a marketing order, in their case a federal order. While the department provides inspection services for other commodities, these commodities are not inspected for meeting requirements under a State or Federal marketing order and are therefore not subject to Chapter 163, HRS, and the provisions of the marketing order revolving fund.

The repeal of the revolving fund and the funding of the program entirely through general funds would limit the department's ability to respond to industry's request for a new marketing order until funds could be appropriated through the budgetary process.

The continued inclusion of the Marketing Order Revolving Funds in the Executive Budget for the fiscal biennium 1991-93 by the department ensures the appropriate review and budgetary controls by the Executive and Legislative Branches and provides easy identification of the program funding sources in relation to the cost of operating the program.

We believe this revolving fund meets all of the criteria established by the Legislative Auditor's Office in reviewing the department's special and revolving funds and therefore recommend continuation of the Marketing Order Revolving Fund.

Your favorable consideration of our recommendations will be greatly appreciated.

Sincerely,


YUKIO KITAGAWA
Chairperson, Board of Agriculture

c: Office of the Governor
Mr. Yukio Takemoto, B&F

JOHN WAIHEE
GOVERNOR



YUKIO TAKEMOTO
DIRECTOR
EUGENE IMAI
~~ROBERT K. TAKESH~~
DEPUTY DIRECTOR
THOMAS I. YAMASHIRO
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM.
HAWAII INC
HAWAII PUBLIC EMPLOYEES HEALTH FUND
HOUSING FINANCE AND DEVELOPMENT
CORPORATION
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
STATE CAPITOL
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL PLANNING AND POLICY
DEVELOPMENT DIVISION
INFORMATION AND COMMUNICATION
SERVICES DIVISION
TREASURY OPERATIONS DIVISION

January 31, 1991

RECEIVED

FEB 4 4 15 PM '91

Mr. Newton Sue
Acting Legislative Auditor
465 So. King Street, Room 500
Honolulu, HI 96813

OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Sue:

Thank you for allowing the Department of Budget and Finance to review and respond to the draft report of the "Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance".

Chapter 6 of the report which pertains to the Department of Budget and Finance was reviewed and our comments are directed to your findings and recommendations on a fund by fund basis.

1. County Special Fund for Certification and Payment of County Contributions to the Pension and Retirement System, Section 88-126, HRS

Auditor's Recommendation: Repeal through appropriate legislation proposed by the department.

Comment: Department concurs.

2. Hawaii Information Network Fund Special Fund, Section 206P-7, HRS

Auditor's Recommendation: Repeal.

Comment: Department does not concur.

The Hawaii Information Network Special Fund should be continued as intended. While the fund has not been activated, there are plans to use the fund for its intended purpose which is to support the development and expansion of the information industry in the State of Hawaii. Five primary revenue sources that will be deposited into the fund have been identified: 1) gateway usage revenue; 2) information provider set up and administrative fees; 3) service bureau usage fees; 4) consultation fees; and 5) grants and gifts.

The gateway usage revenue is generated by information provider gateway costs which are approximately 20% of the retail value of the services offered over the gateway. Included in this revenue stream is the revenue generated by the billing service. The information provider set up and administrative fees include the costs for the initial set up of the service on the gateway, one time gateway charges, and monthly recurring costs. The service bureau fees are those assessed to the information provider for the use of the facilities at HAWAII INC to offer their services on the gateway. The facility use includes the frames creation and server. The consultation fees are those assessed to the information provider to enable the provider to offer their service on the gateway. Consultations cover business case development service presentations, and technical connections. Included are training and educational programs offered by or through HAWAII INC. Grants and gifts revenue include monies received from resources outside of HAWAII INC for the purpose of furthering the development of the information industry in the state.

All of the funds received by the corporation will be used to further the development of the information industry. The activities that the special fund will support include the upgrading of the network, funding incremental costs of the network, special projects to develop applications, research of emerging technologies, advertising and promotion and others.

Although the corporation was authorized in 1988, HAWAII INC was not fully operational until March 1990 when the executive director was hired. Since then, there has been a flurry of activity. The HAWAII FYI gateway is in the final stages of development with a planned public rollout scheduled for the spring of 1991. The support structure for the initial application on the gateway has been developed. HAWAII INC is now ready to use the special fund. We therefore request that the recommendation for the repeal of the special fund be overruled.

3. State Telecommunications Site and Equipment Maintenance Revolving Fund, Section 106-16, HRS

Auditor's Recommendation: Repeal and support through the general fund.

Comment: Department concurs.

4. Veteran's Bond Fund, Section 364-9, HRS

Auditor's Recommendation: Continue.

Comment: Department concurs.

The Department of Budget and Finance supports the Department of Accounting and General Services in its opposition to the recommendations in the report regarding the following funds:

King Kamehameha Celebration (Special) Fund, Section 8-5, HRS
State Educational Facilities Improvement Special Fund, Section 36-32, HRS
State Risk Management Revolving Fund, Section 41D-4, HRS
Works-of-Art Special Fund, Section 103-8.5, HRS

The Department of Budget and Finance also supports the Department of Agriculture's opposition to the recommendations made regarding these funds:

Agricultural Park Special Fund, Section 166-10, HRS
Irrigation System Revolving Fund, Section 167-22, HRS
Marketing Order Revolving Fund, Section 163-31, HRS

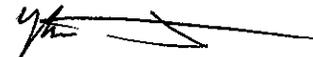
While we concur with the intent of the review of the special and revolving funds, your favorable consideration of the responses from the Department of Accounting and General Services, the Department of Agriculture, and the Department of Budget and Finance is requested.

Finally, in the opening paragraph of Chapter 6 regarding the "State FICA Fund", the following change to the last sentence is recommended to comply with the Governmental Accounting Standard Board's financial reporting requirements:

- Change "trust fund" to "agency fund".

If you have any questions regarding these recommendations, you may contact Ms. E. Ann Nishimoto, Administrator of this department's Financial Planning and Policy Development Division at 548-5865.

Sincerely,


YUKIO TAKEMOTO
Director of Finance

YT/SM:csm

RECOMMENDED LEGISLATION

A BILL FOR AN ACT

RELATING TO STATE SPECIAL AND REVOLVING FUNDS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that maintaining the
2 integrity and financial stability of the state budgetary system
3 ranks among the foremost responsibilities of the State.
4 Unfortunately, long-term economic stability ensuring a continuous
5 flow of revenues for the State is by no means guaranteed.
6 Fluctuations in Hawaii's economy directly affect the level of
7 general fund revenues generated by the State.
8 Compounding the concern over possible future fluctuations in
9 the State's economy is the recent trend toward the establishment
10 of state special and revolving funds to provide full or partial
11 funding support to specific activities or programs outside of the
12 normal legislative appropriations and budget review process. To
13 date, the State has established in excess of one hundred thirty
14 special and revolving funds. These funds generally provide
15 automatic funding to their designated purpose through the
16 program's revenues, the assessment of fees, or the use of general
17 funds without taking into account the overall condition of the
18 state budget or the economy of the State.
19 Act 240, Session Laws of Hawaii 1990, was enacted by the

1 legislature to direct the legislative auditor to perform a
2 comprehensive evaluation of all state special and revolving funds
3 to determine whether:

- 4 (1) Their continued existence is justified; and
5 (2) Moneys appropriated from the general fund and revenues
6 generated by special or revolving fund programs should
7 be deposited in the general fund.

8 The purpose of this Act is to implement the findings and
9 recommendations of the legislative auditor with regard to the
10 special and revolving funds administered by the department of
11 budget and finance, the department of accounting and general
12 services, and the department of agriculture.

13 **PART I. SPECIAL AND REVOLVING FUNDS**

14 **ADMINISTERED UNDER**

15 **THE DEPARTMENT OF BUDGET AND FINANCE.**

16 SECTION 2. Section 106-16, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "[[]§106-16[[]] State telecommunications site and equipment
19 maintenance [revolving fund. There is established a revolving
20 fund which shall be used to] program. The director of finance
21 shall defray the costs of properly maintaining radio transmitter
22 and receiver sites and facilities located on state-owned or

1 controlled premises. All moneys collected from various
2 government agencies and business organizations for the
3 maintenance of these sites and facilities shall be deposited into
4 the [revolving] state general fund. Expenditures [from the
5 revolving fund] under this section shall be made by the director
6 of finance. The director of finance shall prepare and submit to
7 the legislature [a]:

8 (1) The budgetary request for annual operating revenues for
9 the program; and

10 (2) A complete and detailed annual report of the scope of
11 activities being carried out not later than twenty days
12 prior to the convening of each regular session."

13 SECTION 3. Chapter 206P, Hawaii Revised Statutes, is
14 amended:

15 1. By adding a new section to be appropriately designated
16 and to read as follows:

17 "§206P- Sources and uses of funds. The director of
18 finance, on behalf of the corporation, shall submit the annual
19 budgetary request for operating revenues to the legislature to
20 carry out the purposes of this chapter. The director may accept
21 gifts and donations on behalf of the corporation, provided that
22 moneys accepted from private sources shall be expended by the

1 corporation in the manner prescribed by the contributor. The
2 corporation may expend moneys appropriated by the legislature
3 under this chapter to carry out section 206P-4."

4 2. By amending section 206P-5 to read as follows:

5 "[~~§~~206P-5~~]~~ Corporation shall be exempt from certain
6 state laws. In order to promote cooperative projects with
7 private firms or persons, the corporation shall be granted
8 flexibility in hiring its personnel and in handling and shall not
9 be subject to the following state laws:

10 (1) [~~Sections 36-27 and 36-30, relating to special fund~~
11 ~~reimbursements to the state general fund;~~

12 (~~2)~~] Chapter 76, relating to civil service;

13 [~~(3)~~] (2) Chapter 77, relating to compensation; and

14 [~~(4)~~] (3) Section 78-1, relating to public employment."

15 3. By repealing section 206P-7:

16 ["~~§~~206P-7] Hawaii information network special fund. (a)
17 Notwithstanding any other law to the contrary, the corporation
18 shall be authorized to set up a special account for depositing
19 moneys received from either public or private contracts, or from
20 private or public grants, awards, or gifts.

21 (b) The following moneys shall be deposited into the
22 special fund:

- 1 (1) Appropriations by the legislature to the special fund;
- 2 (2) Proceeds derived from the operations of the
- 3 corporation; and
- 4 (3) Gifts, donations, and grants from public agencies and
- 5 private persons.

6 (c) The corporation may expend moneys from the fund to
7 carry out the powers and duties specified in section [206P-4]."

8 SECTION 4. The department of budget and finance shall
9 develop and submit to the legislature, legislation to repeal the
10 county special fund for certification payment of county
11 contributions to the pension retirement system twenty days prior
12 to the convening of the regular session of 1992.

13 PART II. SPECIAL AND REVOLVING FUNDS

14 ADMINISTERED UNDER

15 THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES.

16 SECTION 5. Section 8-5, Hawaii Revised Statutes, is amended
17 as follows:

18 1. By amending subsection (a) to read:

19 "(a) There shall be a commission to be known as the King
20 Kamehameha celebration commission [which] placed within the
21 department of accounting and general services for administrative
22 purposes. The commission shall consist of eighteen members to be

1 appointed by the governor in the manner provided by section
2 26-34[, such]. The appointments [to] shall be made from the
3 following organizations, with at least one member from each
4 organization:

- 5 (1) The Order of Kamehameha of Hawaii;
- 6 (2) Ahahui Kaahumanu;
- 7 (3) Hale o Na Alii o Hawaii Ahahui poo;
- 8 (4) Daughters and Sons of Hawaiian Warriors;
- 9 (5) Daughters of Hawaii;
- 10 (6) Kamehameha Schools Alumni Association;
- 11 (7) State Association of Hawaiian Civic Clubs;
- 12 (8) Waimanalo Homesteaders' Association;
- 13 (9) Kapahulu Music Club;
- 14 (10) Hui Holo Pa-u Me Na Hoa Hololio;
- 15 (11) Papakolea Community Association;
- 16 (12) Hui Kukakuka.

17 In addition, the governor shall appoint one member from each
18 of the following islands: Kauai, Maui, Molokai, Oahu, and
19 Hawaii. Each of these members shall be a resident of the
20 respective island that the member represents. Also, there shall
21 be one at-large member."

22 2. By amending subsection (c) to read:

1 "(c) The members of the King Kamehameha celebration
2 commission shall serve without compensation, but shall be
3 entitled to reimbursement for travel and necessary expenses while
4 attending meetings and while in discharge of their duties. [The
5 funds appropriated for the purposes hereof shall be disbursed on
6 warrants of the state comptroller, based on vouchers approved by
7 the chairperson of the commission.] The comptroller shall
8 reimburse the members of the King Kamehameha celebration
9 commission for all necessary expenses incurred during the
10 discharge of their duties."

11 3. By amending subsection (e) to read:

12 "(e) [The commission may accept donations of money and
13 personal property. There is created in the treasury of the State
14 a special fund to be known as the King Kamehameha celebration
15 fund, into which all moneys donated or appropriated by the
16 legislature to the commission shall be deposited and from which
17 the expenses of the commission to carry out the purpose of this
18 section shall be paid. The moneys appropriated by the
19 legislature to the King Kamehameha celebration fund and not
20 expended within the fiscal year or years shall not lapse but such
21 moneys shall be retained in a fund for use by the commission in
22 subsequent years. Disbursement of moneys from said fund shall be

1 by state warrants issued in accordance with applicable laws and
2 rules and based on vouchers signed by the chairperson of the
3 commission.] The comptroller shall account for all moneys
4 appropriated by the legislature, and may accept donations of
5 money and personal property on behalf of the commission, provided
6 that all donations accepted from private sources shall be
7 expended in the manner prescribed by the contributor."

8 SECTION 6. Chapter 36, Hawaii Revised Statutes, is amended
9 as follows:

10 1. By amending section 36-27 to read:

11 "§36-27 Transfers from special funds for central service
12 expenses. [Except as hereinafter provided, and notwithstanding]
13 Notwithstanding any provisions of any other law to the contrary,
14 there shall be deducted from time to time by the director of
15 finance, for the purpose of defraying the prorated estimate of
16 central service expenses of government in relation to all special
17 funds, except the special summer school fund under section
18 298-3.5; the school cafeteria special funds of the community
19 colleges, the department of education, and the university
20 laboratory school; and the special funds of the student housing,
21 summer session, division of continuing education and community
22 service, campus center, and bookstores of the University of

1 Hawaii[; and the state educational facilities improvement special
2 fund], five per cent of all receipts of each such special fund,
3 which deduction shall be transferred to the general fund of the
4 State and become general realizations of the State. All officers
5 of the State and other persons having power to allocate or
6 disburse any special funds shall cooperate with the director in
7 effecting these transfers."

8 2. By amending section 36-30 to read:

9 "**§36-30 Special fund reimbursements for departmental**
10 **administrative expenses.** Each special fund, except the
11 transportation use special fund established by section 261D-1;
12 the special summer school fund under section 298-3.5; the school
13 cafeteria special funds of the community colleges, the department
14 of education, and the university laboratory school; and the
15 special funds of the student housing, summer session, division of
16 continuing education and community service, campus center, and
17 bookstores of the University of Hawaii[; and the state
18 educational facilities improvement special fund], shall be
19 responsible for its pro rata share of the administrative expenses
20 incurred by the department responsible for the operations
21 supported by the special fund concerned. Administrative expenses
22 shall include, but shall not be limited to, salaries, maintenance

1 of buildings and grounds, utilities, and general office expenses.
2 The pro rata share of each special fund shall be that proportion
3 of the administrative expenses of the department, including those
4 paid from all special funds administered by the department, which
5 the expenditures of the special fund bear to the total
6 expenditures of the department; provided that in determining the
7 amount to be charged to each special fund for its pro rata share,
8 credit shall be given for any administrative expenses paid from
9 the special fund concerned and such other adjustments shall be
10 made as may be necessary to achieve an equitable apportionment.
11 The director of finance may determine the amount to be charged to
12 each special fund and may cause the amounts to be transferred to
13 the general funds as reimbursements."

14 3. By repealing section 36-32:

15 ["§36-32] State educational facilities improvement special
16 fund. There is created in the treasury of the State the state
17 educational facilities improvement special fund, into which shall
18 be deposited a portion of all general excise tax revenues
19 collected by the department of taxation under section 237-31.
20 The state educational facilities improvement special fund shall
21 be used solely to plan, design, acquire lands, construct, provide
22 equipment, and improve public schools and other facilities under

1 the jurisdiction of the department of education, except public
2 libraries. Expenditures from the state educational facilities
3 improvement special fund shall be limited to projects authorized
4 by the legislature and shall be subject to the provisions of
5 sections 37-31 through 37-40. Appropriations or authorizations
6 from the state educational facilities improvement special fund
7 shall be expended by the comptroller.

8 All unobligated, unencumbered, or unexpended funds remaining
9 in the state educational facilities improvement special fund as
10 of June 30, 1999, shall revert to the general fund of the State.
11 The state educational facilities improvement special fund shall
12 be terminated as of June 30, 1999."]

13 SECTION 7. Chapter 41D, Hawaii Revised Statutes, is amended
14 as follows:

15 1. By amending section 41D-3(h) to read:

16 "(h) Claims compromised or settled under this section shall
17 be paid from the state [risk management revolving] general fund."

18 2. By amending section 41D-4 to read:

19 "§41D-4 State risk management [revolving fund.]; source and
20 use of funds. (a) The [state risk management revolving fund is
21 created and shall be funded in amounts reasonably necessary to:]
22 comptroller shall authorize the disbursement of all moneys

1 appropriated by the legislature under this chapter to:

- 2 (1) Carry out the responsibilities of the comptroller
3 established in section 41D-2;
- 4 (2) Pay claims to state agencies for losses to property of
5 the State caused by fire or other casualty, including
6 the cost to repair or replace buildings and other
7 structures, replace damaged contents, and to provide
8 alternate structures while damaged structures are being
9 repaired or replaced;
- 10 (3) Pay claims against the State under sections 662-11,
11 41D-3, and 41D-8; and
- 12 (4) Pay for losses to the State incurred by the dishonesty,
13 nonfeasance, or misfeasance of any officer or employee
14 of the State or for any losses to the State through
15 larceny, theft, embezzlement, forgery,
16 misappropriation, wrongful abstraction, wilful
17 misapplication, or any other fraudulent or dishonest
18 act committed by one or more of the employees of the
19 State acting directly or in collusion with others.
- 20 (b) In addition to any appropriation the legislature shall
21 make [to the state risk management revolving fund,] for the
22 purposes of this chapter, the comptroller may apportion to, and

1 collect from, state agencies those amounts of money that, in the
2 discretion of the comptroller, reflect benefits received by the
3 agencies under this chapter. The comptroller may consider the
4 relevant risk and loss experience of the agencies in making
5 apportionments and assessments. Funds so collected shall be
6 deposited to the state [risk management revolving] general fund.

7 (c) The comptroller may establish deductibles for the state
8 agencies for certain perils or classes of property losses and
9 may:

10 (1) Assess the agencies for losses incurred in the amount
11 of the deductible, or

12 (2) Reduce the payment from the state risk management
13 revolving fund to cover the casualty loss by the amount
14 of the deductible.

15 (d) The comptroller may establish a formula for refunds to
16 the state agencies based upon the agencies' risk and loss
17 experience.

18 (e) Money [in the state risk management revolving fund]
19 appropriated by the legislature under this chapter shall be
20 expended only for the purposes delineated in subsection (a) and
21 only upon the authority of the comptroller, [who is given
22 discretion when to permit expenditures from the fund. Money in

1 the state risk management revolving fund] and shall not be
2 garnished, attached, or otherwise subjected to legal compulsion
3 to pay actual or alleged obligations of the State, any state
4 agency, or any state employee.

5 (f) The comptroller shall prepare, for each fiscal year, a
6 report of all claims arbitrated, compromised, or settled for
7 \$10,000 or less paid [from the state risk management revolving
8 fund.] under this chapter. The report shall be submitted to the
9 legislature twenty days prior to the commencement of the regular
10 session next succeeding the year for which the report is made."

11 3. By repealing section 41D-5:

12 ["[§41D-5] Investment of fund. The director of finance
13 shall invest all moneys appropriated or assessed to the state
14 risk management revolving fund. Interest upon the investments
15 shall be credited to the state risk management revolving fund."]

16 4. By repealing section 41D-6:

17 ["[§41D-6] Fund advancement; dissolution. If the state
18 risk management revolving fund should become financially
19 incapable of meeting its obligations under this chapter, the
20 comptroller, in the comptroller's discretion, may:

21 (1) Request that the governor authorize the transfer of
22 sufficient sums to meet the fund's obligations from

1 whatever such savings as may be available from other
2 current appropriation for any other state program.
3 Money so advanced shall be repaid from the state risk
4 management revolving fund in annual installments,
5 without interest. The amount of installments shall be
6 fixed by the director of finance at whatever amount as
7 can reasonably be expected to liquidate indebtedness of
8 the fund in not more than ten years; or

9 (2) Dissolve the fund, prorating remaining assets of the
10 fund among the claimants, giving priority to those
11 claims as, in the comptroller's discretion, is
12 appropriate."]

13 4. By amending section 41D-8 to read:

14 "[[~~§~~41D-8~~]] Insurance on public vehicles. Vehicles owned
15 by the State or in the custody and use of any department may be
16 self-insured or insured by purchased insurance against public
17 liability in compliance with article 10C of chapter 431.
18 Determinations of whether to insure or self-insure shall be made
19 by the comptroller in conjunction with the state agency having
20 custody or control of the vehicle, or the vehicle may be insured
21 on a complete or excess coverage basis under a comprehensive
22 automobile liability insurance policy entered into by the~~

1 comptroller. If the vehicles are self-insured, claims for which
2 the State is liable under article 10C of chapter 431 may be
3 settled and paid by the comptroller [from the state risk
4 management revolving fund,] out of appropriations made by the
5 legislature from the state general fund, notwithstanding the
6 provisions of chapter 662. Any purchased state comprehensive
7 automobile liability insurance policy shall be administered by
8 and be subject to the control of the comptroller."

9 SECTION 8. Section 103-8.5, Hawaii Revised Statutes, is
10 amended to read as follows:

11 "[[§]103-8.5[§]] Works of art [special fund.] programs;
12 source and use of funds. (a) [There is created a works of art
13 special fund, into which shall be transferred one per cent of all
14 state fund appropriations for capital improvements designated for
15 the construction cost element; provided that this transfer shall
16 apply only to capital improvement appropriations that are
17 designated for the construction or renovation of state buildings.

18 (b) The works of art special fund shall be used] The
19 comptroller shall disburse moneys appropriated by the legislature
20 under this section solely for the following purposes:

21 (1) Costs related to the acquisition of works of art,
22 including any consultant or staff services required to

1 carry out the art in public places and relocatable
2 works of art programs;

3 (2) Site modifications, display, and interpretive work
4 necessary for the exhibition of works of art;

5 (3) Upkeep services, including maintenance, repair, and
6 restoration of works of art; and

7 (4) Storing and transporting works of art.

8 [(c) The one per cent amount, which is included in all
9 capital improvement appropriations, shall be calculated at the
10 time the appropriation bills are signed into law. The moneys
11 shall be transferred into the works of art special fund upon
12 availability of moneys from the appropriations.

13 (d) (b) The comptroller and the state foundation on
14 culture and the arts shall decide on the specific art objects to
15 acquire, giving first consideration to placing appropriate pieces
16 of art at the locations of the original appropriation.

17 The selection of, commissioning artists for, reviewing of
18 design, execution, and placement of, and the acceptance of works
19 of art shall be the responsibility of the comptroller and the
20 state foundation on culture and the arts in consultation with the
21 affected agency or department.

22 [Expenditures from the works of art special fund shall be

1 made by the comptroller.]"

2 SECTION 9. Chapter 106, Hawaii Revised Statutes, is amended
3 as follows:

4 1. By adding a new section to be appropriately designated
5 and to read:

6 "§106- Central purchasing of bulk supplies. The
7 comptroller shall finance bulk purchases of supplies and
8 commodities utilized by state agencies when bulk purchases by a
9 single state agency results in substantial savings to the State.
10 All proceeds realized through the resale of supplies or
11 commodities to any state agency shall be deposited to the credit
12 of the state general fund. The total resale price to the various
13 agencies shall be equivalent to the original cost of the
14 purchases. All expenditures shall be in conformance with chapter
15 103."

16 2. By repealing section 106-15:

17 ["§106-15] Central purchasing revolving fund. There is
18 established a revolving fund the purpose of which shall be to
19 finance bulk purchases of supplies and commodities utilized by
20 state agencies when bulk purchases by a single state agency will
21 result in substantial savings to the State. The fund shall be
22 administered by the department of accounting and general

1 services.

2 All sums withdrawn from the fund shall be reimbursed or
3 restored thereto from the proceeds realized through the resale of
4 such commodities to the several state agencies. The total resale
5 costs to the various agencies shall be equivalent to the original
6 costs of the purchases. All expenditures from such revolving
7 fund shall be in accordance with the provisions of chapter 103.]"

8 SECTION 10. Chapter 106, Hawaii Revised Statutes, is
9 amended as follows:

10 1. By adding a new section to be appropriately designated
11 and to read:

12 "§106- Proceeds from the sale of state surplus property.
13 All proceeds accumulated by the comptroller through the public
14 sale of state surplus property or through the assessment of fees
15 on state agencies for the storage, handling, or disposal of
16 surplus state property shall be deposited to the credit of the
17 state general fund. All costs incurred by the department under
18 this section, including but not limited to, the cost of
19 reimbursing the federal surplus property program for the
20 department's pro rata share of administrative expenses, shall be
21 defrayed through appropriations made to the department by the
22 legislature. For purposes of this section, "surplus state

1 property" means any excessive personal property of a state agency
2 transferred to the state surplus property branch for storage or
3 disposal. The comptroller shall maintain an inventory of all
4 surplus state property and keep a full record of all transactions
5 involving state surplus property. The comptroller shall submit
6 an annual report to the governor and the legislature detailing
7 all transactions involving state surplus property made during the
8 preceding fiscal year."

9 2. By repealing section 106-23:

10 ["[§106-23] State surplus property revolving fund. There
11 shall be, in the state treasury, a state surplus property
12 revolving fund into which all proceeds collected from the public
13 sale of surplus state property and handling fees collected from
14 state agencies for the storage or disposal of surplus state
15 property shall be deposited. Expenditures from the fund shall be
16 made by the comptroller to defray the costs of handling, storing,
17 and disposing of such surplus state property. For purposes of
18 this section, "surplus state property" means any personal
19 property determined by a state agency to be excessive and
20 transferred to the state surplus property branch for storage or
21 disposal. The comptroller shall keep, or cause to be kept, a
22 full record of all transactions involving the state surplus

1 property revolving fund and shall maintain an inventory of all
2 surplus state property and make an annual report to the governor
3 and the legislature showing the collections and expenditures made
4 for the preceding fiscal year."]

5 SECTION 11. Section 107-11, Hawaii Revised Statutes, is
6 amended by amending subsections (e) and (f) to read as follows:

7 "(e) There is [appropriated out of the general fund of the
8 State the sum of \$50,000 into a fund] hereby created a fund to
9 be known as the "state parking revolving fund" which [fund is to]
10 shall be used to carry out the purposes of this section. Such
11 amounts shall be expended by the comptroller from the fund, as
12 may be necessary, to defray the cost of paving parking areas, the
13 purchase and installation of parking meters and the operation
14 thereof, and of other parking facilities on state land within the
15 comptroller's jurisdiction. The state parking revolving fund
16 shall be utilized to conform with the special fund depository
17 requirements under section 39-62 for all revenues and user taxes
18 received as the result of the issuance of any state parking
19 facility undertaking or loan program revenue bonds.

20 (f) All fees, charges, and other moneys collected pursuant
21 to this section, and all revenues and user taxes received
22 pursuant to section 39-62 as the result of the issuance of any

1 state parking facility undertaking or loan program revenue bonds
2 shall be deposited in the state parking revolving fund."

3 SECTION 12. Section 107-8, Hawaii Revised Statutes, is
4 repealed:

5 ["§107-8 Public improvement revolving fund. There is
6 appropriated out of the general revenues of the State the sum of
7 \$25,000 which is constituted a revolving fund to be known as the
8 "public improvement revolving fund" for the use of the department
9 of accounting and general services in defraying the costs and
10 expenses incurred in making the necessary surveys and in the
11 preparation of plans and specifications for the construction of
12 public improvements.

13 All sums withdrawn from the fund shall be reimbursed or
14 restored thereto out of the funds available for the particular
15 public improvement for which such sums were withdrawn.

16 No money shall be paid out of the fund except on vouchers
17 signed by the comptroller and approved by the governor."]

18 SECTION 13. Section 109-3, Hawaii Revised Statutes, is
19 amended to read as follows:

20 "§109-3 Stadium special fund. There is created a special
21 fund to be known as the stadium special fund into which funds
22 collected by the authority shall be deposited. The fund shall be

1 applied, used and disposed of for the payment of:

2 (1) The expenses of the operation, maintenance, and
3 management of; and

4 (2) All or a portion of the cost of financing any capital
5 improvement project for;

6 the stadium and related facilities; provided that all services
7 required for the stadium and related facilities shall be
8 performed by persons hired on contract or otherwise, without
9 regard for chapters 76 or 77."

10 SECTION 14. Section 237-31, Hawaii Revised Statutes, is
11 amended to read as follows:

12 "§237-31 Remittances. All remittances of taxes imposed by
13 this chapter shall be made by money, bank draft, check, cashier's
14 check, money order, or certificate of deposit to the office of
15 the department of taxation to which the return was transmitted.
16 The department shall issue its receipts therefor to the taxpayer
17 and shall pay the moneys into the state treasury as a state
18 realization, to be kept and accounted for as provided by law;
19 [provided that on or about September 1 of each year from 1989
20 through 1995, the sum of \$90,000,000 from all general excise tax
21 revenues realized by the State shall be deposited in the state
22 treasury in each fiscal year to the credit of the state

1 educational facilities improvement special fund;] provided
2 [further] that [a]:

3 (1) A sum, not to exceed \$5,000,000, from all general
4 excise tax revenues realized by the State shall be
5 deposited in the state treasury in each fiscal year to
6 the credit of the compound interest bond reserve fund;
7 [provided further that from] and

8 (2) From July 1, 1981, to June 30, 1991, all taxes derived
9 from the sale of liquid fuel under section 237-16, sold
10 or used for operating motor vehicles upon the public
11 highways of the State, shall be deposited into the
12 state treasury to the credit of the state highway fund.

13 The director of taxation with the approval of the governor
14 shall establish by July 1 of each year from 1984 through 1990, a
15 formula that will equitably establish the amount of taxes
16 collected under section 237-16 in each fiscal year that are
17 derived from the sale of liquid fuel sold or used for operating
18 motor vehicles upon the public highways of the State which are to
19 be deposited into the state treasury to the credit of the state
20 highway fund."

21 **PART III. SPECIAL AND REVOLVING FUNDS**

22 **ADMINISTERED UNDER**

1 THE DEPARTMENT OF AGRICULTURE.

2 SECTION 15. Section 166-10, Hawaii Revised Statutes, is
3 amended to read as follows:

4 "§166-10 Agricultural park [special fund. (a) There is
5 created in the state treasury a special fund to be designated as
6 the agricultural park special fund. The proceeds in the fund
7 shall be used for the following purposes:] program; source and
8 use of funds. (a) The chairperson of the board of agriculture
9 shall expend moneys appropriated by the legislature under this
10 chapter for the following purposes:

- 11 (1) Payment of agricultural park lease rents of privately
12 owned lands under lease to the State pursuant to
13 sections 171-112 and 166-3;
- 14 (2) Establishing, operating, maintaining, and improving
15 infrastructure improvements in agricultural parks
16 designated by the department pursuant to section 166-3;
17 and
- 18 (3) Any other purposes deemed necessary by the department
19 for the purpose of maintaining and operating those
20 agricultural parks and related facilities designated by
21 the department pursuant to section 166-3.

22 For the purpose of paragraph (2), infrastructure

1 improvements may include, but shall not be limited to: irrigation
2 water system projects, wind power or hydro power and pumping
3 systems, waste disposal systems, domestic water systems, roads,
4 street lights, land and roads drainage, and bridges.

5 (b) [Moneys appropriated for the purpose of the fund; any
6 other provision of the law to the contrary notwithstanding, all]
7 All moneys received or collected from [an]:

8 (1) Any agricultural park project designated pursuant to
9 section 166-3, including residential and agricultural
10 lot lease rents; and [all]

11 (2) Any money collected or received by the department for
12 the use and maintenance of domestic and irrigation
13 water systems within an agricultural park and other
14 systems enumerated in subsection (a)

15 shall be deposited [into the agricultural park special] to the
16 credit of the state general fund. [All interest earned or
17 accrued on moneys deposited in the fund shall become a part of
18 the fund. Moneys in the fund shall be expended upon warrants
19 drawn by the comptroller.]"

20 SECTION 16. Section 171-117, Hawaii Revised Statutes, is
21 amended by amending subsection (b) to read as follows:

22 "(b) Public lands designated or in use as agricultural

1 parks on June 30, 1986, may be set aside under section 171-11 to
2 the department of agriculture upon its request for use as
3 agriculture parks. Notwithstanding any lease term to the
4 contrary, after June 30, 1986, revenues from the rent, use, or
5 maintenance of leased lots in agricultural parks set aside under
6 this subsection shall be deposited [into the agricultural park
7 special fund established under section 166-10.] to the credit of
8 the state general fund."

9 SECTION 17. Section 168-3, Hawaii Revised Statutes, is
10 amended to read as follows:

11 "[[§168-3]] Funds. The board of agriculture shall pay
12 all receipts and revenues received by it from the operation of an
13 irrigation and water utilization system into the [irrigation
14 system revolving fund established under section 167-22. The
15 fund] state general fund. Moneys appropriated by the legislature
16 shall be used and expended for the following purposes:

- 17 (1) Payment of the operating and maintenance costs of the
18 system;
- 19 (2) Repairs, replacements, additions, and extensions;
- 20 (3) Reimbursement to the State the amount of any principal
21 or interest due upon any bond issue under this
22 chapter."

1 SECTION 18. Section 168-5, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "[[§168-5]] Irrigation systems account. (a) There shall
4 be a special account in the [irrigation system revolving fund of
5 the board of agriculture] department of budget and finance to be
6 known as the "irrigation systems account". The director of
7 finance may make temporary use of any portion or all of the money
8 not immediately needed for construction and operation of an
9 irrigation system for the purpose of paying warrants drawn on the
10 treasury for current indebtedness of the State, or for deposit in
11 the state sinking fund for the repayment of bonds, or for
12 investment in state bonds; provided that sufficient of the sums
13 so taken, deposited, or invested shall be redeposited to the
14 credit of the irrigation systems account prior to the time when
15 any engagement for the payment from the account falls due.

16 The moneys from the account shall be expended upon warrants
17 drawn by the comptroller for the purposes of this chapter."

18 SECTION 19. Section 167-22, Hawaii Revised Statutes, is
19 repealed.

20 ["§167-22] Irrigation system revolving fund. There shall
21 be a special fund to be known as the "irrigation system revolving
22 fund". Moneys in the revolving fund shall be expended for

1 administrative costs, engineering surveys, economic studies,
2 plans, maps, and for other water projects or purposes of the
3 board of agriculture. In the event any moneys are expended
4 therefrom for engineering surveys, economic studies, plans, and
5 other expenses directly attributable to any water project, or for
6 the establishment of any water project, the amount of the
7 expenditures shall be reimbursed to the revolving fund from any
8 funds received by the board for and on account of the project."]

9 SECTION 20. Section 142-24, Hawaii Revised Statutes, is
10 repealed.

11 ["§142-24 Animal industry revolving fund. To provide a
12 working capital for the purchase by the department of agriculture
13 of preventive and curative serum, vaccine, bacterin, and other
14 remedies for the control and suppression of transmissible
15 diseases among the livestock and other animals in the State, the
16 sum of \$5,000 is appropriated from the general revenues of the
17 State, to be deposited with the director of finance as a
18 continuing deposit to be known as the "Animal Industry Revolving
19 Fund."]

20 SECTION 21. Act 240, Session Laws of Hawaii 1990, is
21 amended by amending section 3 to read as follows:

22 "SECTION 3. The legislative auditor shall evaluate each

1 fund existing on or prior to July 1, 1990, described in section 6
2 of this Act according to the review date schedule, and shall
3 submit an evaluation report to the legislature not less than
4 sixty days after the completion of the review. The evaluation
5 shall be based on the criteria contained in section 4 of this Act
6 and shall assess whether the public interest requires that the
7 fund be continued, modified, or repealed. A single report may
8 encompass the evaluation of more than one fund and may include
9 funds relating to programs administered by different agencies.

10 Each department shall assist the auditor in collecting and
11 reporting any data the auditor may require to conduct the
12 evaluation.

13 If the auditor finds that the fund should be modified, the
14 auditor shall incorporate in the auditor's report, recommended
15 legislation, if appropriate, to be considered for enactment and
16 which, if enacted, would improve the policies, procedures, and
17 practices of the fund evaluated.

18 If the auditor finds that the fund should be repealed, the
19 auditor shall nevertheless evaluate the effectiveness and
20 efficiency of the fund and make appropriate recommendations to
21 improve the policies, procedures, and practices.

22 The auditor shall provide the department of budget and

1 finance and each department whose funds are evaluated pursuant to
2 this Act [not less than thirty days] the opportunity to review
3 and comment upon the evaluation report prior to submission of the
4 report to the legislature. If the auditor receives written
5 comments from the department of budget and finance or the
6 department whose funds are being evaluated, the auditor shall
7 append the written comments to the evaluation report for
8 submission to the legislature.

9 The auditor may request the assistance of the legislative
10 reference bureau in drafting the recommended legislation. Any
11 other law to the contrary notwithstanding, the auditor may
12 release copies of preliminary reports to the bureau if the
13 auditor requests the bureau's assistance under this section. The
14 bureau shall comply with the auditor's request if the auditor
15 provides a copy of the preliminary report to the bureau at the
16 same time the report is provided to the department."

17 SECTION 22. If any provision of this Act, or the
18 application thereof to any person or circumstance is held
19 invalid, the invalidity does not affect other provisions or
20 applications of the Act which can be given effect without the
21 invalid provision or application, and to this end the provisions
22 of this Act are severable.

1 SECTION 23. Statutory material to be repealed is bracketed.
2 New statutory material is underscored.

3 SECTION 24. This Act shall take effect on July 1, 1992;
4 provided that the director of finance, the comptroller, and the
5 chairperson of the board of agriculture shall transfer to the
6 credit of the state general fund, all unexpended or unencumbered
7 balances remaining in any special or revolving fund under their
8 respective departments that is designated for repeal by this Act,
9 prior to June 30, 1992; provided further that section 4 shall
10 take effect upon approval.

11

12

INTRODUCED BY: _____

