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

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

Report No. 92-3  
January 1992



**THE AUDITOR**  
STATE OF HAWAII

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## 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.
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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.
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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.



## THE AUDITOR STATE OF HAWAII

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# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

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

### Summary

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

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

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

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

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## Recommendations and Response

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

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

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

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Submitted by

**THE AUDITOR**  
STATE OF HAWAII

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## Foreword

In Act 240, SLH 1990, the Legislature requested the Auditor to review over a five-year period all special and revolving funds in existence as of July 1, 1990. This review is of those funds administered by or administratively attached to the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism. The purpose of the review is to assess whether each agency's special or revolving funds should be continued, modified, or repealed. As required by the act, we have included our recommended legislation.

We wish to acknowledge the excellent cooperation extended by the officials and staff of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism. We also extend our appreciation to the staff of the Legislative Reference Bureau, which drafted the recommended legislation.

Marion M. Higa  
Acting Auditor  
State of Hawaii



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# Chapter 1

## Introduction

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This is a report on our review of special and revolving funds in the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism. The review comprises another of a series directed by Act 240, Session Laws of Hawaii 1990, and scheduled over a five-year period. Our first report (No. 91-10), issued in February 1991, reviewed the special and revolving funds in the Department of Accounting and General Services, the Department of Agriculture, and the Department of Budget and Finance. We also analyzed all special and revolving funds proposed during the 1991 legislative session.

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 fiscally prudent to request the auditor to evaluate existing special and revolving funds and to review legislation proposing new ones.

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### Objectives of the Review

1. To evaluate the appropriateness of special and revolving funds of two specified agencies.
2. To recommend whether these funds should be continued, modified, or repealed.

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### Scope of the Review

Act 240 schedules the review of all special and revolving funds in existence as of July 1, 1990, 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. This review examines those funds directly administered by the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism.

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 or activity*.

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## Method of the Review

In evaluating the appropriateness of these funds, we applied the same criteria developed for our first review. We discuss the criteria in Chapter 3 of this report. We researched the legislative history of each fund to determine its intent and purpose. We also reviewed, as appropriate, the administrative rules, financial audit reports, agency financial reports, and other documents. To gain an understanding of fund operations and the consequences of abolishing certain funds, we interviewed key fiscal and program personnel. The financial information shown for fiscal year 1990-91 was obtained from the agencies and is unaudited.

Our work was performed from February 1991 through September 1991 in accordance with generally accepted government auditing standards.

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# Chapter 2

## Background on Special and Revolving Funds

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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 or 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.

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### Loss of Budgetary Control

From the perspective of those who manage special fund programs, such funds are highly desirable. They guarantee funding and have provided 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 loss of 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.”<sup>1</sup> 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.<sup>2</sup> 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).”*

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## **Hawaii’s Budgetary Control Act of 1957**

Nearly 35 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.”<sup>3</sup> 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.<sup>4</sup> 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.”<sup>5</sup> 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.

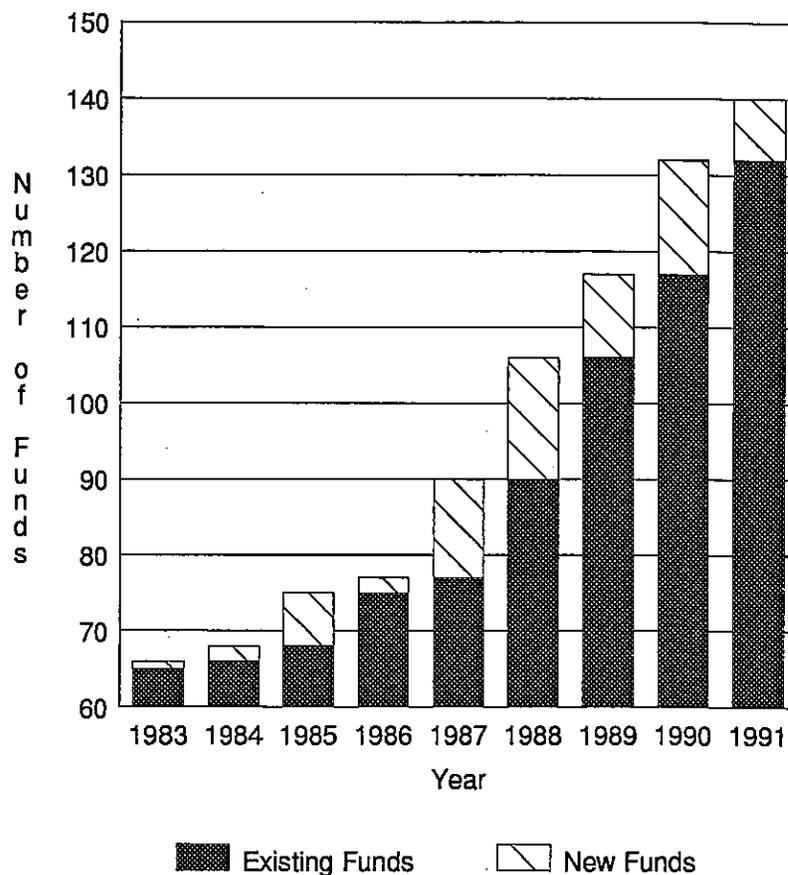
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## **Recent Proliferation of Special Funds**

The proliferation of special funds in recent years has again given rise to legislative concern. Over the last eight years 75 new special or revolving funds have been created by statute, representing a more than 100 percent increase over the previous years.<sup>6</sup> 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, instead allowing cash reserves to accumulate in many special funds even after the legislative spending authorization has lapsed. Previously, these cash reserves were available to the agency for spending because of a budget proviso allowing the governor to approve increases in the expenditure ceilings of special funds.<sup>7</sup> This practice, however, is not authorized for the fiscal biennium 1991-93 because the budget proviso was eliminated from the General Appropriations Act of 1991 (Act 296).<sup>8</sup> As a result, even though a special fund program may have cash reserves, its spending cannot exceed its fiscal year appropriation.

### ***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 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.”<sup>9</sup> 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.

### ***Erosion of the general fund through earmarking***

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 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.<sup>10</sup>

A recent report by the National Conference of State Legislatures, which discusses the dynamics of earmarking practices within the 50 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.<sup>11</sup>

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.”<sup>12</sup>

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# Chapter 3

## Criteria for Reviewing Special and Revolving Funds

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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.

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### 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.

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## **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 provide a 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.

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## **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.

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# Chapter 4

## Housing Finance and Development Corporation

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This chapter presents our findings and recommendations on each of 13 special and revolving funds administered by the Housing Finance and Development Corporation (HFDC). Of these, 5 are special funds and 8 are revolving funds. The Elderly Housing Revolving Fund, originally placed within HFDC, was transferred to the Hawaii Housing Authority by Act 67, Session Laws of Hawaii 1990, and will be reviewed with that agency's funds.

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 do not evaluate the program or its management, nor do we assess whether or not the program should be continued. Our focus is on whether a special or revolving fund is the appropriate means of financing.

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### Summary of Recommendations

Dwelling Unit Revolving Fund. Continue.

Fee Simple Residential Revolving Fund. Continue.

Fee Title Acquisition Loan Program Revenue Bond Special Funds. Repeal.

Hawaii Development Revolving Fund. Continue but consider transferring unneeded cash to the general fund.

Homes Revolving Fund. Continue but consider returning the \$120 million advance to the general fund.

Housing Alteration Revolving Loan Fund. Continue.

Housing Finance Revolving Fund. Continue.

Housing Loan Program Revenue Bond Special Fund. Continue.

Multi-Family Revenue Bond Fund. Continue.

Housing Project Bond Special Fund. Continue.

Rental Assistance Revolving Fund. Repeal and budget through the general fund.

Rental Housing Revolving Fund. Repeal.

State Mortgage Guarantee Fund. Repeal.

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**Dwelling Unit  
Revolving Fund  
Section 201E-204,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	33,087,505
Receipts		49,582,441
Expenditures		62,407,829
Transfers		(2,781,701)*
Ending Balance	\$	17,480,416

\*Transferred to pay for State Program BUF 225, and administrative expenses.

**Recommendation: Continue.**

Created within the Hawaii Housing Authority in 1970, and transferred to HFDC in 1987, this fund had as its purpose the accounting for the financial transactions related to all phases of development, construction, sale, or rental of housing units for certain low income projects. The language of the legislation is broad enough to allow the fund to pay for State Program BUF 225, a program receiving both general and special funds to encourage private housing development and ownership. The fund allows HFDC to provide developers with interim financing and other assistance to expedite the completion of low income housing units. This very active fund continues to serve the purpose for which it was originally created—it provides the financing of various low income housing programs. There is a direct link between the benefit and the charges because those who borrow from the fund are required to repay the loans, thereby generating the revenues that support the program. The fund is self-sustaining. Repayments on loans replenish the fund and enable new loans. This fund meets all three criteria and should be continued.

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**Fee Simple  
Residential  
Revolving Fund  
Section 516-44, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	966,026
Receipts		533,203
Expenditures		90,425
Transfers		(293,206)*
Ending Balance	\$	1,115,598

\*Transfer to pay for State Program BUF 223 and administrative expenses.

**Recommendation: Continue.**

This active fund was created in 1967 to account for the revenues, receipts and expenditures of the leasehold-to-fee conversion program established under the Land Reform Act (Act 307, 1967). It also pays for the State Program BUF 223, whose purpose is to expedite the conversion of residential lease land to fee simple. The fund continues to serve the purpose for which it was originally created. It is used to finance the costs of assisting lessees who wish to purchase the fee interest in their homes. There is a direct link between the benefits of expediting the conversion process and the charges for conversion made upon the users. Lessees who obtain fee simple ownership of their residential lots pay the costs of condemnation procedures, and these payments sustain the fund. This fund therefore meets all three criteria and should be continued.

**Fee Title  
Acquisition Loan  
Program Revenue  
Bond Special  
Funds  
Section 516-111, HRS**

**Recommendation: Repeal.**

This fund was created in 1983 but was never activated. Its original purpose was to account for the sale of revenue bonds. The bonds were to finance the acquisition of fee title to those leasehold residential lots being condemned under the Land Reform Act. According to HFDC, no revenue bonds have been sold and it has no plans to activate the fund. We therefore recommend its repeal.

**Hawaii  
Development  
Revolving Fund  
Section 201E-217,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	502,422
Receipts		33,256
Expenditures		0
Ending Balance	\$	535,678

**Recommendation: Continue but consider transferring unneeded cash to the general fund.**

The original purpose of this fund was to provide loans to cover the planning, development, and initial costs of projects for low and moderate cost housing. This fund has been active in the past but did not make any loans in FY1990-91. The corporation expects that there will be future activity in the fund. It would appear the fund serves the purpose for which it was originally created; however, continued lack of loan activity may indicate changed conditions that reduce the cash needs of the fund. 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 and interest. The fund has demonstrated the capacity to be financially self-sustaining. Repayments on previous loans replenish the fund and enable new loans. This fund meets all three criteria and should be continued for the present. In light of the reduced demand for loans, consideration should be given to transferring unneeded cash to the general fund.

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**Homes Revolving  
Fund  
Section 201E-207,  
HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$ 122,570,439
Receipts	18,726,117
Expenditures	11,195,530
Ending Balance	\$ 130,101,026

**Recommendation: Continue but consider returning the \$120 million advance to the general fund.**

This fund was created in 1988 to provide moneys to finance development of affordable homes on large tracts of land on the four major islands. The fund was capitalized with \$120 million advanced from the general fund. The general fund cash advance was to be repaid from proceeds of bond sales. To date the advance has not been repaid. The fund continues to serve the purpose for which it was originally created. It makes available interim financing for the development and construction of the infrastructure including roadways and utilities, and the housing project units. A direct link between the benefits sought and the charges made upon the users exists because the financing is repaid by the repayment of the loans with interest or through the sales of housing units. The fund is also self-sustaining and has not required additional infusions from the general fund. The fund meets all three criteria and should be continued. However, consideration should be given to the return of the \$120 million to the general fund.

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**Housing Alteration  
Revolving Loan  
Fund  
Section 201E-191,  
HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$ 0
Receipts	205,961
Expenditures	0
Ending Balance	\$ 205,961

**Recommendation: Continue.**

This new fund has not yet been activated. Created in 1990, its original purpose was to provide the physically disabled with loans of up to \$25,000 to make home alterations that would enable them to be more independent. The Legislature provided an initial general fund appropriation of \$200,000 when the fund was created. The fund balance of \$205,961 includes interest earned on the seed money. Before activating the fund, HFDC must first obtain final approval of the administrative rules. The administrative rules, as drafted, outline steps to be taken to provide loans as intended under the statute. The fund is intended to link the benefits sought and the charges made upon the users. Those who receive loans must repay the principal and interest and sustain the fund. This fund should be allowed to continue for the present.

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**Housing Finance  
Revolving Fund  
Section 201E-57, HRS**

## FINANCIAL DATA FOR FY 1990-91

Beginning Balance	\$ 2,042,376
Receipts	1,616,525
Expenditures	421,472
Transfers	(1,264,155)*
Ending Balance	\$ 1,973,274

\*Transfer to pay for State Program BUF 227 and administrative expenses.

**Recommendation: Continue.**

This fund was created in 1987 to be used for long-term financing and other special financings of the corporation and for the expenses of administering HFDC. The fund also pays for State Program BUF 227. This program, which will receive \$6 million in general funds in 1991-92, provides financing for home ownership. Receipts of the fund include interest earnings, charges for services to programs, and mortgage loan repayments. The fund continues to serve the purpose for which it was originally created—it pays for administrative expenses and provides certain long-term financing for HFDC projects. There is a direct link between benefits and user charges in the form of loan interest, principal repayments, and charges to other programs of the corporation. The fund is self-sustaining. The fund meets all three criteria and should be continued.

**Housing Loan  
Program Revenue  
Bond Special  
Fund**  
Section 201E-73, HRS

This fund was originally created within the Hawaii Housing Authority in 1979 to establish a separate fund for each housing loan program being financed by revenue bonds. In 1987 the fund was transferred to HFDC. The law requires that each housing loan program have a separate fund to account for the operation of the fund. The two housing loan programs currently in operation—one for low and moderate income single family home buyers and the other for private owners/developers of residential rental projects—are discussed here.

***Housing Loan  
Program Revenue  
Bond Special Fund***

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$ 6,788,233
Receipts	117,039,663
Expenditures	116,388,563
Ending Balance	\$ 7,439,333

**Recommendation: Continue.**

This very active fund finances the Hula Mae Single Family Program, a program enabling families with low and moderate incomes to purchase homes. HFDC sells tax-exempt revenue bonds to finance the mortgage loans, which are made to eligible buyers at below market interest rates. The fund continues to serve the purpose for which it was originally created, by providing loan funds to buyers. This fund links the benefits sought and charges made upon the users. Those who benefit from the lower interest loans made possible by the sale of revenue bonds are the persons who make the loan repayments. Repayments are used in turn for the debt service payments on the revenue bonds. The fund is also self-sustaining, with receipts well in excess of expenditures. This fund meets all three criteria and should be continued.

***Multi-Family Revenue  
Bond Fund***

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$ 92
Receipts	2,265,215
Expenditures	2,265,215
Ending Balance	\$ 92

**Recommendation: Continue.**

This fund finances the Hula Mae Multi-Family Program. The program was intended to encourage private developers to develop new rental housing projects and to rehabilitate existing ones. HFDC sells tax-

exempt revenue bonds, enabling it to make long-term mortgage loans to developers at lower than market rates. For a project to qualify for financing, at least 20 percent of the units must be made available to low income families. Although no new loans were made in FY 1990-91, loans made in the past are being repaid and the fund continues to serve the purpose for which it was originally created. It collects mortgage payments and pays the debt service on the revenue bonds issued. It links the benefits of loans made with charges made to the borrowers by requiring those who receive loans to repay them. The fund sustains itself. It meets all three criteria and should be continued.

**Housing Project  
Bond Special  
Fund  
Section 201E-57, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	124,660
Receipts		76,784,269
Expenditures		76,684,433
Ending Balance	\$	224,496

**Recommendation: Continue.**

In addition to the Housing Finance Revolving Fund discussed previously, Section 201E-57, HRS, also established in 1987 a bond special fund for each housing project or system of housing projects financed by bond proceeds. The fund continues to serve the purpose for which it was originally created. HFDC issues bonds to acquire or construct rental housing projects for lower income families and individuals. Projects are financed by the proceeds of tax-exempt revenue bonds. The link between the benefits sought and the charges made upon the users is direct. HFDC owns the projects and makes the debt service payments for the bonds from tenant rental receipts. The fund is also self-sustaining. Therefore, the fund meets all three criteria and should be continued.

**Rental Assistance  
Revolving Fund  
Section 201E-132,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	13,071,521
Receipts		15,746,210
Expenditures		3,204,709
Transfers		(14,506)*
Ending Balance	\$	25,598,516

\*Transfer for administrative expenses.

**Recommendation: Repeal and budget through the general fund.**

The fund was created in 1987 for the purpose of receiving moneys from the State to support the rental assistance program and to subsidize rental payments for low or moderate income families and individuals. The fund is financed through the earmarking of interest earned on approximately \$50,000,000 of state general fund cash investments. This fund serves the purpose for which it was originally created but does not meet the second and third criteria. There are no user charges, and the fund is not self-sustaining. It is subsidized by earmarked general funds, which supply the users of the program with an automatic means of support. The fund should be repealed and the rental assistance program budgeted through the general fund.

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**Rental Housing  
Revolving Fund  
Section 201E-208,  
HRS**

**Recommendation: Repeal.**

This fund was created in 1988 but is not active. The original purpose was to create a vehicle for HFDC to provide rental housing for the elderly. According to corporation officials, HFDC provides such housing under the Housing Project Bond Special Fund and has no plans to activate this revolving fund. We therefore recommend its repeal.

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**State Mortgage  
Guarantee Fund  
Section 201E-160,  
HRS**

**Recommendation: Repeal.**

This fund was created in 1987 but was never activated. Its original purpose was to guarantee payment of loans made under the State Mortgage Guarantee Program and to support the operations of the Department of Budget and Finance and the HFDC in granting and administering these loans. According to HFDC officials, there are no plans to activate this fund. We recommend that this fund be repealed since it has never served the purpose for which it was created.

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# Chapter 5

## Department of Business, Economic Development, and Tourism

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This chapter presents our findings and recommendations on each of 22 special and revolving funds administered by the Department of Business, Economic Development, and Tourism. Of these, 9 are special funds and 13 are revolving funds. The Natural Energy Laboratory of Hawaii Special Fund was repealed. It was replaced under Section 227D-5, HRS, by the Natural Energy Laboratory of Hawaii Authority Special Fund reviewed here.

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 do not evaluate the program or its management, nor do we assess whether or not the program should be continued. Our focus is on whether a special or revolving fund is the appropriate means of financing.

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### Summary of Recommendations

Aloha Tower Special Fund. Repeal and budget through the general fund.

Commercial Loan Guarantee Reserve Fund. Repeal.

Development Funds for Each Issue of Bonds Issued by a High Technology Development Corporation. Repeal.

Financial Services Assistance Revolving Fund. Repeal and budget through the general fund.

Foreign Trade Zones Special Fund. Continue but consider transferring unneeded cash to the general fund.

Hawaii Capital Loan Revolving Fund. Continue.

Hawaii Community Development Revolving Fund. Continue.

Hawaii Community-Based Development Revolving Fund. Repeal and budget through the general fund.

Hawaii Innovation Development Fund. Continue.

Hawaii Large Fishing Vessel Purchase, Construction, Renovation, Maintenance, and Repair Loan Revolving Fund. Continue but consider transferring unneeded cash to the general fund.

Hawaii Small Fishing Vessel Purchase, Construction, Renovation, Maintenance, and Repair Loan Program Revolving Fund. Continue but consider transferring unneeded cash to the general fund and modifying to establish a sunset date.

Hawaii Strategic Development Corporation Revolving Fund. Continue.

High Technology Research and Development Revolving Fund. Repeal and budget through the general fund.

High Technology Special Fund. Repeal and budget through the general fund.

Molokai Revolving Loan Program. Continue.

Natural Energy Laboratory of Hawaii Authority Special Fund. Repeal and budget through the general fund.

Petroleum Products Control Revolving Fund. Repeal and budget through the general fund.

Public Facility Revenue Bond Special Fund. Continue.

Reserved Housing Loan Program Revenue Bond Special Fund. Repeal.

Special Fund for Out-of-State Offices. Repeal and budget through the general fund.

State Disaster Revolving Loan Fund. Continue but consider transferring unneeded cash to the general fund.

Waikiki Convention Center Development Revolving Fund. Repeal and budget through the general fund.

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**Aloha Tower  
Special Fund  
Section 206J-17, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	19,290
Receipts		125,000
Expenditures		0
Ending Balance	\$	144,290

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1981 to support the development of the Aloha Tower complex by the Aloha Tower Development Corporation. The corporation was to be the prime developer of the complex, whose responsibilities include selling revenue bonds and contracting for construction and rehabilitation. In 1990 the corporation entered into an agreement with an independent developer to develop the complex and assume responsibility for project financing and construction contracting. Because of this transfer of the corporation's responsibilities, the fund will no longer function as originally intended. Although there is some link between benefits and charges in that the corporation provides the land and facilities and charges the developer lease rent and other fees, the fund is not self-sustaining. The corporation's operating expenses are supported by general fund appropriations. The fund does not meet the first and third criteria and should be repealed and the corporation's operations budgeted through the general fund.

**Commercial Loan  
Guarantee  
Reserve Fund  
Section 211-4, HRS**

**Recommendation: Repeal.**

Created in 1965 to finance a loan guarantee program, this fund is not active. No account has ever been created and there are no plans for using the fund. The department concluded that the state's program was not needed because the federal government was providing guarantee commercial loans through the Small Business Administration. This fund should be repealed.

**Development Funds  
for Each Issue of  
Bonds Issued by a  
High Technology  
Development  
Corporation  
Section 206M-17, HRS**

**Recommendation: Repeal.**

This fund was created in 1983 to account for bonds issued by the High Technology Development Corporation, but has never been activated. According to an official of the High Technology Development Corporation, there are no plans to issue revenue bonds for high technology parks or other projects. This fund should be repealed since it has never served its purpose.

**Financial Services  
Assistance  
Revolving Fund  
Section 201C-3, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	0
Receipts		1,500,000
Expenditures		400,000
Ending Balance	\$	1,100,000

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1990 to support the development of Hawaii's financial services industry. The fund received an initial general fund appropriation of \$1,500,000 when created in 1990. The fund continues to serve the purpose for which it was originally created. Expenditures for 1990-91 were for consultant services related to the development of a financial center to attract financial services companies to Hawaii. In FY1991-92, much of the consultant time will continue to be devoted to the financial center project. The fund, however, does not meet the second and third criteria. There are no user charges and therefore no capacity to generate revenues. The department has no plan to make the fund self-sustaining. The fund therefore should be repealed and the program budgeted through the general fund.

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**Foreign Trade  
Zones Special  
Fund  
Section 212-9, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$ 2,683,541
Receipts	1,905,763
Expenditures	1,346,383
Ending Balance	\$ 3,242,921

**Recommendation: Continue but consider transferring unneeded cash to the general fund.**

The original purpose of this fund, created in 1971, was to support a public corporation created to establish and operate foreign trade zones in Hawaii. The fund continues to serve the purpose for which it was originally created. The fund collects fees from those who use the foreign trade zone and pays for all costs of operations. The link between the benefits sought and the charges made upon the users is direct—those who receive the benefits of the foreign trade zone pay fees for using it. The fund is also self-sustaining. In fact, its ending cash balance represents more than two years of 1991 operating expenses. It therefore meets all three criteria and should be continued for the present. In light of the relatively large cash balance, consideration should be given to transferring unneeded cash to the general fund.

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**Hawaii Capital  
Loan Revolving  
Fund  
Section 210-3, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$ 3,111,009
Receipts	3,676,628
Expenditures	2,650,889
Ending Balance	\$ 4,136,748

**Recommendation: Continue.**

The original purpose of this fund was to help diversify the state's economy by making loans available to small businesses. Created in 1963, the fund continues to serve its original purpose by making loans to businesses. There is a link between the benefits sought and the charges made upon the users because those who receive loans must repay the principal and interest, thereby generating the fund's revenues. The fund is experiencing increased loan activity and in FY1990-91 received \$1.7 million from the general fund to enable it to meet demand. Although it received this infusion, the fund is self-sustaining because payments of principal and interest will replenish the fund and enable additional loans to be made. The fund therefore meets all three criteria and should be continued.

**Hawaii  
Community  
Development  
Revolving Fund  
Section 206E-16, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$ 10,174,250
Receipts	6,437,412
Expenditures	3,601,969
Ending Balance	\$ 13,009,693

**Recommendation: Continue.**

The original purpose of this fund was to support the activities of the Hawaii Community Development Authority. Since its creation in 1976, the fund has continued to serve its original purpose. All receipts and revenues received by the authority are deposited to the revolving fund and used to develop underutilized urban areas. The authority currently is involved in the development of the Kakaako District. The fund links the benefits sought and the charges made. Property owners who benefit from infrastructure improvements are assessed their share of improvement costs. Developers of residential properties in the district are required to set aside 20 percent of the development as affordable housing. In lieu of setting aside a portion of the development, developers may pay a fee to the authority which can then be used to develop affordable housing in other urban areas. The fund is also self-sustaining—receipts and revenues pay for the development costs. The fund therefore meets all three criteria and should be continued.

**Hawaii  
Community-Based  
Development  
Revolving Fund  
Section 210D-4, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	0
Receipts		912,184
Expenditures		326,829
Ending Balance	\$	585,355

**Recommendation: Repeal and budget through the general fund.**

The original purpose of this fund, created in 1990, was to support a Hawaii community-based development loan and grant program to assist traditional and small community-based enterprises. Receipts for 1990-91 consist of a \$900,000 appropriation from the general fund and the interest earned thereon. Department officials said that moneys will be used mainly for grants. Loans will not be made until rules have been adopted. Loan amounts will be small. The fund serves the purpose for which it was created in that grants have been made to support fish farming. However, because there are no user fees under a grant program, there is no clear link between who benefits and who pays. Moreover, the fund cannot sustain itself because grants are not repaid and loan activity will be small. The fund therefore will require regular infusions from the general fund. The fund should be repealed and the program budgeted through the general fund.

**Hawaii Innovation  
Development  
Fund  
Section 211E-2, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	687,196
Receipts		39,631
Expenditures		70,000
Ending Balance	\$	656,827

**Recommendation: Continue.**

This fund was originally established in 1981 as the Hawaii Invention Development Fund to promote inventions and other new products. The fund was renamed in 1987 and its purpose broadened to include early-stage financing for promotion of new products, services and technologies. The fund continues to serve its current purpose, providing in 1990 two loans in support of the program. There is a direct link between the benefits sought and the charges made upon the users because those who receive loans must repay the principal and interest.

This fund is self-sustaining because principal and interest payments will replenish the fund and enable it to make other loans. The fund therefore meets all three criteria and should be continued.

**Hawaii Large  
Fishing Vessel  
Purchase,  
Construction,  
Renovation,  
Maintenance, and  
Repair Loan  
Revolving Fund  
Section 189-23, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	3,146,321
Receipts		736,130
Expenditures		51,089
Ending Balance	\$	3,831,362

**Recommendation:** Continue but consider transferring unneeded cash to the general fund.

This fund was created in 1965 to support the development and expansion of commercial fishing by making available low interest loans for the purchase, construction, renovation, maintenance, and repair of fishing vessels weighing at least five net tons. In FY1990-91, the fund made one loan for \$50,000. This appears to serve the purpose for which it was created. The fund links the program benefits and the charges made upon the users. Those who receive loans repay the fund through principal and interest payments. These payments, coupled with minimal loan disbursements, have continued to sustain the fund, enabling the program to carry out its activities without infusions from the general fund. This fund meets all three criteria and should be continued. However, in light of minimal loan activity, consideration should be given to transferring unneeded cash to the general fund.

**Hawaii Small  
Fishing Vessel  
Purchase,  
Construction,  
Renovation,  
Maintenance, and  
Repair Loan  
Program  
Revolving Fund  
Section 189-43, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	1,022,886
Receipts		181,770
Expenditures		67
Ending Balance	\$	1,204,589

**Recommendation:** Continue but consider transferring unneeded cash to the general fund and modifying to establish a sunset date.

The purpose of this fund, created in 1975, was to provide the owners of small commercial fishing vessels (under five tons net weight) with the same financial assistance provided owners of large vessels. Although no

loans have been made since 1988, loans were made in prior years and the fund serves the purpose for which it was originally created. There is a link between the benefits sought and the charges made upon the users because those who receive loans replenish the fund through principal and interest payments. The fund has been self-sustaining since its creation. The fund therefore meets all three criteria and should be continued. However, because no loans have been made since 1988, consideration should be given to transferring unneeded cash to the general fund. The Legislature might also consider modifying the statute by establishing a sunset date for the program.

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**Hawaii Strategic  
Development  
Corporation  
Revolving Fund  
Section 211F-5, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	0
Receipts		6,196,067
Expenditures		0
Ending Balance	\$	6,196,067

**Recommendation: Continue.**

The purpose of this fund is to support the Hawaii Strategic Development Corporation, which was created to encourage Hawaii's economic development through innovative financing programs carried out in cooperation with private enterprise. The 1990 statute provides broadly as follows: "The following moneys shall be deposited into the . . . corporation revolving fund and shall not be considered part of the general fund: all moneys appropriated by the legislature, received as repayments of loans, earned on investments, received pursuant to a venture agreement, received as royalties, received as premiums or fees charged by the corporation, or otherwise received by the corporation." Receipts of the fund consist of a \$6,000,000 appropriation from the general fund and interest of \$196,067 earned in FY1990-91. Because the fund is so new, we could not determine whether it will in fact meet the criteria. The corporation's board of directors is currently in the process of adopting administrative rules and the fund has not been used. The administrative rules, as drafted, indicate the fund will be used as intended, and that there will be linkage between benefits sought and payment by those who benefit. They further indicate that financial assistance expenditures should be recovered. The fund should be allowed to continue for the present.

**High Technology  
Research and  
Development  
Revolving Fund  
Section 206M-15,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	91,784
Receipts		0
Expenditures		91,784
Ending Balance	\$	0

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1983, in order to support high technology enterprises (through the development of industrial parks) and to support the Pacific International Center for High Technology Research. Since 1989 the fund has been used for grants to promote high technology business in Hawaii. Awards are made under the Small Business Innovative Research program. The fund serves the purpose for which it was originally created. However, it does not meet the second and third criteria. It does not link users with charges—those who directly benefit from the program do not support it. The fund supports a grant program having no means to replenish and sustain itself except through infusions from the general fund. The fund should be repealed and the program budgeted through the general fund.

**High Technology  
Special Fund  
Section 206M-15.5,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	75,615
Receipts		143,831
Expenditures		78,907
Transfers		(4,000)*
Ending Balance	\$	136,539

\*Transfer to Natural Energy Laboratory of Hawaii Authority Special Fund.

**Recommendation: Repeal and budget through the general fund.**

The original purpose of this fund, created in 1989, was to finance the operations of the High Technology Development Corporation's industrial parks, projects, leased facilities, and other services. The corporation now operates three facilities, Manoa Innovative Center, Kaimuki Technology Enterprise Center, and Maui Research and Technology Center. The fund continues to serve the purpose for which it was created and there is a link between benefits sought and charges made upon users. Lease rents and other fees collected from users of the

facilities help pay for the expenses of maintaining them. However, the fund is unable to sustain itself and will require continued general fund support. The three facilities received \$3 million in general funds during the 1989-91 biennium, and corporation management expects that operating expenses will continue to exceed rental revenues. The fund therefore should be repealed and the program budgeted through the general fund.

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**Molokai Revolving  
Loan Program  
Act 384, Session  
Laws of Hawaii 1988**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	183,434
Receipts		262,196
Expenditures		33,248
Ending Balance	\$	412,382

**Recommendation: Continue.**

This fund was created in 1988 by Act 384 to provide loans to stimulate business development and growth on the island of Molokai. The act has a sunset date of June 30, 1993. This fund continues to serve the purpose for which it was originally created. During the past fiscal year, two loans were made totalling \$33,248. Because those who receive loans support the fund through principal and interest payments, there is a link between the benefits sought and the charges made upon the users. The payment of principal and interest replenishes the fund and enables it to make additional loans and sustain itself. This fund meets all three criteria and should be continued for the present.

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**Natural Energy  
Laboratory of  
Hawaii Authority  
Special Fund  
Section 227D-5, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	0
Receipts		867,060
Expenditures		608,083
Transfers		59,054*
Ending Balance	\$	318,031

\*Transfers from the High Technology Special Fund and the prior existing Natural Energy Laboratory Special Fund.

**Recommendation: Repeal and budget through the general fund.**

The original purpose of this 1990 fund was to maintain the authority's two facilities, the Hawaii Ocean Science Technology Park and the Natural Energy Laboratory of Hawaii. Prior to 1990, the facilities were operated within the High Technology Special Fund and the Natural Energy Laboratory Special Fund. The fund continues to serve the purpose for which it was created. All revenues of the facilities are deposited to the fund, and operating expenses are paid from the fund. Because those who use the authority's facilities pay fees, rentals, and other charges, there is a link between the benefits sought and the charges made upon the users. However, the fund has not been able to sustain itself. Both facilities required continuous general fund support before being consolidated under the authority in 1990, and the authority received \$699,000 of general fund appropriations to support the facilities during FY1990-91. This fund has not demonstrated a capacity to sustain itself. It should be repealed and the department should budget for program expenses through the general fund.

**Petroleum  
Products Control  
Revolving Fund  
Section 125C-7, HRS**

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1975 but has not been activated. The original purpose was to receive and expend funds as necessary during an energy shortage. The fund has never been used to carry out its original purpose. During the recent Middle East crisis, the department spent about \$100,000 in general fund appropriations which could not be expended through the Petroleum Products Control Revolving Fund because it was not active. The fund also does not meet the second and third criteria. There are no user charges, the program is supported completely by general funds, and the department does not expect the fund to become self-sustaining. The fund therefore should be repealed, and the petroleum products control program budgeted through the general fund.

**Public Facility  
Revenue Bond  
Special Fund  
Section 206E-157,  
HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	1,826,411
Receipts		1,804,211
Expenditures		1,380,310
Ending Balance	\$	2,250,312

**Recommendation: Continue.**

This fund was created in 1985 to provide revenue bond financing for public facilities and district improvements, such as parks, streets, and sewers. The law requires that property owners in a district benefitting

from these improvements be assessed a portion of the costs. The fund serves the purpose for which it was created, which is similar to that of the Hawaii Community Development Fund discussed earlier. The Hawaii Community Development Authority has been using the fund for infrastructure improvement projects in Kakaako such as streets and sewers. Property owners who have directly benefitted from the improvements are assessed their portion of the costs. The link between the benefits sought and the charges made upon the users is direct—those who benefit from the improvements are assessed fees. Further, this fund is self-sustaining because property owners' payments for improvements enable the fund to pay the debt service on the improvements. The fund meets all three criteria and should be continued.

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**Reserved Housing  
Loan Program  
Revenue Bond  
Special Fund  
Section 206E-109,  
HRS**

**Recommendation: Repeal.**

This fund was created in 1982 but has not been activated. The original purpose was to provide mortgage loans to low- or moderate-income borrowers so that they may purchase housing reserved for low- or moderate-income residents. A separate special fund was to be established for each reserved housing loan program that was financed from the proceeds of revenue bonds. The Hawaii Community Development Authority does not plan to use this fund. Instead, the authority has been using revenue bond funds for reserved housing construction through the Housing Finance and Development Corporation. This fund has never served the purpose for which it was created. We therefore recommend it be repealed.

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**Special Fund for  
Out-of-State  
Offices  
Section 201-85, HRS**

**FINANCIAL DATA FOR FY1990-91**

Beginning Balance	\$	468,269
Receipts		604,579
Expenditures		838,655
Ending Balance	\$	234,193

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1988 to support the activities of out-of-state offices providing a business and marketing presence in overseas locations. The offices are located in Tokyo, Hong Kong, and Washington, D.C. Although the fund meets the first criterion and continues to serve the purpose for which it was created, it does not meet the second and third criteria. There are no user charges and the fund is

supported entirely by general fund appropriations. The fund should be repealed and the activities of out-of-state offices budgeted through the general fund.

**State Disaster  
Revolving Loan  
Fund  
Section 209-34, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	701,169
Receipts		47,783
Expenditures		31,010
Ending Balance	\$	717,942

**Recommendation: Continue but consider transferring unneeded cash to the general fund.**

The purpose of this fund, created in 1976, was to provide loans to individuals and small businesses suffering loss or damage as a result of a state-declared disaster. Two loans were made in the past two years and total loans outstanding as of June 30, 1991, amounted to \$55,487. Since January 1980, the original general fund appropriation of \$500,000 has earned \$253,623 in interest income. Although activity has been minimal, the fund continues to serve the purpose for which it was created. There is a direct link between benefits sought and charges made upon users because those who receive loans are required to repay the principal with interest. The fund is self-sustaining. The fund meets all three criteria and should be continued. However, due to the minimal activity and the small number of loans outstanding (six), consideration should be given to transferring unneeded cash to the general fund.

**Waikiki  
Convention Center  
Development  
Revolving Fund  
Section 206X-10, HRS**

FINANCIAL DATA FOR FY1990-91

Beginning Balance	\$	134,723
Receipts		409,909
Expenditures		425,363
Ending Balance	\$	119,269

**Recommendation: Repeal and budget through the general fund.**

This fund was created in 1988 to support the activities of the Waikiki Convention Center Authority, the organization responsible for the planning, development, construction, and operation of a convention center in Waikiki. This fund continues to serve the purpose for which it was originally created. The authority is currently negotiating with a

developer for the construction and operation of a convention center. There is an intended link in that future users of the convention center will be required to pay for the use of the center. However, the fund has not demonstrated an ability to sustain itself. It is supported by general fund moneys and will continue to need these infusions. The fund therefore should be repealed and the activities of the Waikiki Convention Center Authority budgeted through the general fund.

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## 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. Also, Tax Foundation of Hawaii, *Legislative Review*, Honolulu, July 8, 1991, pp. 20 and 22.
7. Section 263, Act 316, SLH 1989.
8. Memorandum to All Department Heads from Governor John Waihee, Subject: Fiscal Year 1992 Budget Execution Policies and Instructions, August 29, 1991.
9. Hawaii, Legislative Auditor, *Hawaii Constitutional Convention Studies, 1978, Article VI: Taxation and Finance*, Honolulu, Hawaii, 1978, pp. 20-21.
10. Marcia Y. Sakai, "Special Funds," *Tax Review Commission Working Papers and Consultant Studies*, Honolulu, Hawaii, v. 2, December 1989, pp. 31-40.
11. The National Conference of State Legislatures, *Earmarking State Taxes*, Second Edition, Denver, Colorado, 1990, pp. 13-16.
12. *Ibid.*, p. 21.



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## Responses of the Affected Agencies

### Comments on Agency Responses

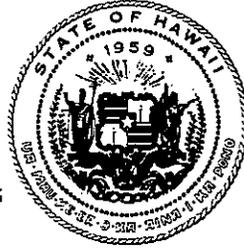
We transmitted a draft of this review to the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism on December 13, 1991. Act 240 also requires that we submit a draft to the Department of Budget and Finance for its review. A copy of the transmittal letter is included as Attachment 1. The responses from the corporation and the Department of Business, Economic Development, and Tourism are included as Attachments 2 and 3, respectively. We received a late written response from the Department of Budget and Finance which is included as an Addendum.

The Housing Finance and Development Corporation concurs with most of our recommendations, but says that the repeal of the Rental Assistance Revolving Fund should be delayed pending the outcome of proposed legislation. It says that the repeal of the State Mortgage Guaranty Fund should also be delayed pending a study being undertaken pursuant to House Concurrent Resolution No. 357. Finally, it says that transfer of excess cash from the Hawaii Development Revolving Fund should be delayed pending the establishment of a rental housing trust fund.

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

The Department and Budget and Finance concurs with the other responses. The department states that special and revolving funds should be self-sustaining and program beneficiaries should pay for the program. In this regard the department believes that program evaluations need to be performed to ascertain that the program is meeting its legislatively mandated purpose, and, therefore, whether special or revolving funds are still warranted.

**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

December 12, 1991

C O P Y

The Honorable Joseph K. Conant  
Executive Director  
Housing Finance and Development Corporation  
7 Waterfront Plaza  
500 Ala Moana Boulevard  
Honolulu, Hawaii 96813

Dear Mr. Conant:

Enclosed are three copies, numbered 6 through 8, of our draft report, *Review of Special and Revolving Funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism*. The special and revolving funds in your corporation are discussed in Chapter 4. We ask that you telephone us by Monday, December 16, 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 Monday, January 13, 1992.

The Directors of the Departments of Business, Economic Development, and Tourism and Budget and 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,

A handwritten signature in cursive script that reads 'Newton Sue'.

Newton Sue  
Acting Auditor

Enclosures

JOHN WAIHEE  
GOVERNORJOSEPH K. CONANT  
EXECUTIVE DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
HOUSING FINANCE AND DEVELOPMENT CORPORATION  
SEVEN WATERFRONT PLAZA, SUITE 300  
500 ALA MOANA BOULEVARD  
HONOLULU, HAWAII 96813  
FAX (808) 587-0600

IN REPLY REFER TO:

92:ASO/113

January 9, 1992

RECEIVED

JAN 13 11 43 AM '92

OFF. OF THE AUDITOR  
STATE OF HAWAII

Ms. Marion Higa  
Acting Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813

Dear Ms. Higa:

The Housing Finance and Development Corporation (HFDC) has reviewed the draft report entitled, "Review of Special and Revolving Funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development and Tourism". Our comments on the recommendations for various HFDC-administered funds are as follows:

1. Hawaii Development Revolving Fund (HDRF)

We concur that any excess cash should be transferred to the general fund. However, with the potential establishment of a Rental Housing Trust Fund by the legislature, it is proposed that any transfer be delayed pending the establishment of such a Trust Fund. If a Trust Fund is established, the activity in the HDRF may justify the need for the funds in its entirety to supplement the functions of non-profits in the use of the Trust Fund; or it may be that the Trust Fund will replace the need for the HDRF, thereby allowing HFDC to transfer the entire amount of the HDRF into the general fund.

2. Homes Revolving Fund (HRF)

The HFDC has no objections to the general fund cash advance being replaced by either a general obligation or revenue bond issue provided that the debt service requirement not be passed on to HFDC. We would

Ms. Marion Higa  
January 9, 1992  
Page 2

however defer to Budget and Finance in determining the terms of such a replacement.

3. Rental Assistance Revolving Fund (RARF)

HFDC concurs with your finding that this fund does not satisfy the second and third criteria. However, HFDC and Budget and Finance are currently developing proposed legislation that will provide for annual appropriations through the general fund and satisfy other Bond Indentures and programmatic problems. It is recommended that the repeal be delayed and reconsidered pending the outcome of the proposed legislation.

4. State Mortgage Guarantee Fund

HFDC recommends delaying the repeal of this Fund pending the results of the feasibility study being undertaken by the Hawaii Community Reinvestment Corporation pursuant to H.C.R. 357 (H.D.1).

If you should have any questions, please contact Don Kawahakui at 587-0611.

Sincerely,



Joseph K. Conant  
Executive Director

DK:cls

JOHN WAIHEE  
GovernorMURRAY E. TOWILL  
DirectorBARBARA KIM STANTON  
Deputy DirectorRICK EGGED  
Deputy DirectorTAKESHI YOSHIHARA  
Deputy Director

## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Central Pacific Plaza, 220 South King Street, 11th Floor, Honolulu, Hawaii  
 Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804 Telephone: (808) 586-2406 Fax: (808) 586-2377

January 9, 1992

The Honorable Marion Higa  
 Acting Auditor  
 OFFICE OF THE AUDITOR  
 465 S. King Street, Room 500  
 Honolulu, Hawaii 96813

RECEIVED

JAN 13 4 20 PM '92

OFF. OF THE AUDITOR  
 STATE OF HAWAII

Dear Ms. Higa:

Enclosed are the responses and recommendations from the Department of Business, Economic Development and Tourism (DBED) for the special and revolving funds discussed in your draft report.

Thank you for the opportunity to comment on this report. Please call me at 586-2359 if you have any questions.

Sincerely,

*Murray E. Towill*  
 Murray E. Towill

Attachment

## AUDITOR'S REPORT ON SPECIAL AND REVOLVING FUNDS OF DBED

### 1. ALOHA TOWER SPECIAL FUND Section 206J-27, HRS

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

The ATDC disagrees with the Legislative Auditor's recommendation of dissolution of the Aloha Tower Special Fund. ATDC feels that the report is based on inaccuracies and that it does not properly or fully take into account the operations of the ATDC or the structure of the Aloha Tower development.

Criteria #1. The Auditor incorrectly assumes criteria 1 is not met because:

- Fund's primary purpose is to assist the ATDC in selling revenue bonds and in contracting for construction and rehabilitation of the Aloha Tower complex.
- The Corporation's agreement with an independent developer to develop the project and assume project financing negates the intended purpose of the fund.

This is inaccurate because:

- 206J-17 HRS provides that the Special Fund is established to receive all rentals, charges and other revenues. The ATDC has the option of setting up a separate fund for receipt of revenues to deal with bond issues. This is not mandatory nor is it a requirement.
- Section 206J-5(a)(9) allows ATDC to utilize the RFP method to develop the project area. The method chosen is therefore served by the continued existence of the Fund.

Further discussion:

1. The Special Fund was created to assist the ATDC in developing the project area regardless of the method chosen. Should the fund be abolished, the ATDC's ability to fully develop the project area will be significantly endangered. ATDC has liability for hazardous waste remediation, costs associated with the maintenance of state facilities within the project and common area expenses. Should the ATDC fail to meet these expenses it could be held in breach of the Master Lease.

2. The ATDC is obligated, by statute, to repay DOT for lost revenues suffered as a result of redevelopment. In addition, the ATDC will undertake some of DOT's obligations with regard to maintenance on state facilities within the project. This will require the creation of a reserve and periodic project related expenditures. ATDC also has obligations to OHA which must be met.

3. The lease premium paid to the State by the developer, and held in the Fund, is protection against a failure by the developer to complete the project.

Criteria #3: The Auditor erroneously concluded that the Special Fund is not self sustaining and does not meet criteria 3. Admittedly, at the time the audit was performed, the Fund was inactive. At this time, however, the Fund is the depository for the Developer's monthly holding period rent. Although this sum is not sufficient to cover all of ATDC's current operating expenses, it will so serve in the future. After execution of the Master Lease the ATDC should be completely self sustaining.

Conclusion: The existence of the Fund is one of the primary assumptions underlying agreements between ATDC, DOT and the Developer. Once development begins and revenue is received, the Fund will become integral to the full development of the Aloha Tower Complex.

2. COMMERCIAL LOAN GUARANTEE RESERVE FUND  
Section 211-4, HRS

Auditor's Recommendation: Repeal.

The Department of Business, Economic Development and Tourism (DBED) concurs with the recommendation since the fund has never been used. In 1985, the department made a report to the Thirteenth Legislature on House Resolution No. 19, requesting a study on the concept of shifting reliance in existing state loan programs from direct loans to the guarantee of loans made by private lenders. It was concluded that the state's guarantee program was not needed since the Federal Small Business Administration was providing a satisfactory commercial loan guarantee program for private financial institutions.

3. DEVELOPMENT FUNDS FOR EACH ISSUE OF BONDS ISSUED BY A  
HIGH TECHNOLOGY DEVELOPMENT CORPORATION  
Section 206M-17, HRS

Auditor's Recommendation: Repeal.

The High Technology Development Corporation (HTDC) strongly disagrees with the Legislative Auditor's recommendation to repeal the Development Funds for Each Issue of Bonds Issued by a High Technology Development Corporation.

The review did not consider the "value of the program, the quality of its management, or whether the program deserved to be continued" but only focused on whether special funding was the appropriate means of funding the program or activity. However the method of

funding will have a significant impact on the program. The repeal of this special fund will severely deteriorate the quality of the program.

The legislation that established HTDC included provisions for issuing revenue bonds to finance construction of projects to be undertaken with private sector partners. While it is true that the special fund created to manage this process has not yet been utilized, as Hawaii's high technology industry matures, the prospect of such ventures are increasing. This is not the time to arbitrarily repeal this flexibility. We oppose the recommendation.

#### 4. FINANCIAL SERVICES ASSISTANCE REVOLVING FUND Section 201C-3, HRS

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

The DBED disagrees with the Auditor's recommendation. The Financial Service Assistance Revolving Fund was created through Act 107 (1990) for the purpose of encouraging the creation of a financial services industry (or "financial mall") in Hawaii. The Act has a broad purpose, but limits the use of monies appropriated to (a) consulting studies and (b) loans to firms in the financial services industry. The Act does not stipulate proportions in which these monies shall be used for each of these functions. The legislative intent, however, is clearly to provide DBED with the necessary flexibility to accomplish this purpose, and to be able to capitalize on opportunities (expediently) as they arise.

According to the Legislative Auditor, criteria 2 and 3 are not met and is therefore the basis for recommending that this revolving fund be repealed. We disagree. Criteria 2 and 3 will certainly be met when loans are made to firms in the financial services industry.

If this revolving fund is repealed, it would be a setback to the development of the financial services industry in Hawaii. Our ability to successfully attract businesses to this state is often dependent on how quickly we can rise to an opportunity. If we have to wait a whole year to receive appropriations from the legislature, far too many opportunities will fall by the wayside.

I would strongly recommend that we argue for the revolving fund to remain as is. Perhaps as a compromise we might suggest that future appropriations be divided so that funds for consulting contracts can be kept separate from the loan funds. This might be achieved by establishing a separate account for consulting contract funds.

5. FOREIGN TRADE ZONES SPECIAL FUND  
Section 212-9, HRS

Auditor's Recommendation: Continue but consider transferring unneeded cash to the general fund.

The DBED agrees with the Auditor's recommendation that the FTZ Special Fund be continued and that consideration be given to transferring "unneeded" cash to the general fund. We are not, however, of the opinion that the cash reserve which we currently have is unneeded. This apparent surplus would appear as either reserves or in sinking funds if the Zone were permitted to use a more appropriate accounting system which more adequately reflects the nature of our business activity.

Our special fund has given us a significantly longer planning horizon, which has let to a more rational expenditure of funds over time. There has never been a reason for spending money simply because it has been appropriated. There was never the fear that funds would lapse ("use it or lose it") at the end of the fiscal year.

We submit two recommendations which we feel would substantially enhance our operational efficiencies and provide a middle ground for those who have argued for a privatization of many government enterprises.

First we need an accounting system that recognizes certain liabilities and anticipated losses through cash reserves and anticipates future expenditures through the use of sinking funds.

Second, we need explicit authority from the legislature to exceed our appropriation ceiling on an emergency basis with the approval of the Governor or Director of Budget & Finance. While the zone has only done this two or three times in the past 25 years, it is essential to the orderly operation of a service-oriented business activity to be able to respond promptly to changing circumstances.

In summary, we find a special fund to be a self-regulation method of motivating greater efficiency and controlling costs. We do think that the current system has some impediments which, if removed, will enhance the program. And finally, we feel that our cash reserve of approximately \$3 million is not yet sufficient to meet or adequately address all of our contingency requirements.

6. HAWAII CAPITAL LOAN REVOLVING FUND  
Section 210-3, HRS

Auditor's Recommendation: Continue.

The DBED concurs with the recommendation to continue to program. Since the inception of the program in 1963 to 1990, the department has provided financial assistance to 461 small businesses with \$30 million out of a total requirement of \$73.5 million. From total appropriations of \$8.9 million, the total revolving fund has increased to \$14.9 million derived from interest earned on loan repayments and investments.

7. HAWAII COMMUNITY DEVELOPMENT REVOLVING FUND  
Section 206E-16, HRS

Auditor's Recommendation: Continue.

The Hawaii Community Development Authority (HCDA) agrees with the Legislative Auditor's recommendation to continue the HCDA Revolving fund.

8. HAWAII COMMUNITY-BASED DEVELOPMENT PROGRAM  
Section 210D-4, HRS

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

The DBED disagrees with the Auditor's recommendation to repeal the present program and budget for grants and loans through the general fund. Act 111, SLH 1990 appropriated \$1 million in FY 91. Of this amount, \$900,000 was placed in a revolving fund of which \$477,000 was awarded in grants. Start-up and administrative expenses, including salaries, accounted for the remaining \$100,000. The balance of \$425,000 remained in the fund. In FY 92, an additional \$50,000 was added to the revolving fund. Currently, the revolving fund contains approximately \$500,000, including earned interest.

The administrative rules were approved by the Governor on December 4, 1991. The Community-Based Economic Development Advisory Council, appointed by the Governor, has begun to solicit requests for grants and loans. The department has requested an additional \$500,000 in the supplemental budget for FY 1992-93 to adequately address the funding and technical assistance needs of communities that are striving to establish greater economic self-reliance and self-determination. Presently, there are 51 pre-applications that are being reviewed by the Advisory Council. Since applications are continually solicited and reviewed by the Council as received, it

is essential that revolving funds be available to meet the continuing demand. Annual funding would create lapse and be reappropriated. While it is true that grants are not returned to the revolving fund, loans are and the needed mix of loans rather than grants will not be evident until the program has reached a stable level in two to three years.

9. HAWAII INNOVATION DEVELOPMENT FUND  
Section 211E-2, HRS

Auditor's Recommendation: Continue.

The DBED agrees with the Auditor's recommendation to continue the program. Since the audit, the department has provided assistance to a third applicant in the amount of \$100,000 for commercializing the patent-pending method of growing shiitake and other fungi on a worldwide basis. It is expected that other applications will be made for these funds as the state's high technology enterprises reach the expansion state of their development.

10. HAWAII LARGE FISHING VESSEL PURCHASE, CONSTRUCTION,  
RENOVATION, MAINTENANCE AND REPAIR LOAN REVOLVING FUND

Section 189-23, HRS

Auditor's Recommendation: Continue but consider transferring unneeded cash to the general fund.

The DBED disagrees with the Auditor's recommendation to consider transferring unneeded cash to the general fund. Although new loans for the purchase or construction of new vessels have been suspended for the past several years due to the poor economic condition of the commercial fishing industry, loans for repair and maintenance are still being processed.

Act 43, SLH 1991 authorized the department to transfer moneys as the need arises among various loan revolving funds. The flexibility to transfer will permit more efficient use of available moneys by allowing the department to move funds according to need, while retaining the integrity and intent of each loan program. Also, due to an austere forecast for the fiscal biennium 1992-93, this transfer authority will avoid the need for further appropriations from general revenues for the business loans programs. The available funds in the Large Fishing Vessel revolving funds will most likely be transferred to the Hawaii Capital Loan revolving fund where there has been constant demands for financial assistance.

11. HAWAII SMALL FISHING VESSEL PURCHASE, CONSTRUCTION,  
RENOVATION, MAINTENANCE AND REPAIR LOAN PROGRAM REVOLVING FUND  
Section 189-43, HRS

Auditor's Recommendation: Continue but consider transferring unneeded cash to the general fund and modifying to establish a sunset date.

The DBED disagrees with the Auditor's recommendation to consider transferring unneeded cash to the general fund and modifying to establish a sunset date.

Although new loans for the purchase or construction of new vessels have been suspended for the past several years due to the poor economic condition of the commercial fishing industry, loans for repair and maintenance are still being processed.

Act 43, SLH 1991 authorized the department to transfer moneys as the need arises among various loan revolving funds. The flexibility to transfer will permit more efficient use of available moneys by allowing the department to move funds according to need, while retaining the integrity and intent of each loan program.

Also, due to an austere forecast for the fiscal biennium 1992-93, this transfer authority will avoid the need for further appropriations from general revenues for the business loans programs. The available funds in the Small Fishing Vessel revolving funds will most likely be transferred to the Hawaii Capital Loan revolving fund where there has been constant demands for financial assistance.

12. HAWAII STRATEGIC DEVELOPMENT CORPORATION REVOLVING FUND  
Section 211F-5, HRS

Auditor's Recommendation: Continue.

The Hawaii Strategic Development Corporation (HSDC) concurs with the Auditor's recommendation to continue the HSDC Revolving Fund.

The Auditor's report recognized the relatively short existence of the Hawaii Strategic Development Corporation (HSDC) at the time of the audit, and noted that the corporation has not yet used the fund. The audit further stated that the administrative rules, as drafted, indicate the fund will be used as intended, and that the rules include linkage between benefits sought and payments by those who benefit. The rules also provide for the recovery of financial assistance expenditures.

These administrative rules were adopted on June 17, 1991 and are now Chapter 127, State of Hawaii Department of Business, Economic Development & Tourism.

The Board is in the process of adopting an evaluation process and application package for the evaluation of requests for funds. Upon adoption by the board, the application package will be given to those seeking assistance. HSDC has in hand several inquiries that are preliminary to a formal request for funds. The Board hopes to make its first placement of funds during the current fiscal year.

13. HIGH TECHNOLOGY RESEARCH AND DEVELOPMENT REVOLVING FUND  
Section 206-M-15, HRS

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

The High Technology Development Corporation (HTDC) strongly disagrees with the Legislative Auditor's recommendation to repeal the High Technology Research and Development Revolving Fund.

The review did not consider the "value of the program, the quality of its management, or whether the program deserved to be continued" but only focused on whether special funding was the appropriate means of funding the program or activity. However the method of funding will have a significant impact on the program. The repeal of this special fund will severely deteriorate the quality of the program.

The repeal of this fund would be contrary to the action taken by the Legislature during its 1991 session when the HTDC Research and Development Special fund was changed to a revolving fund to provide the flexibility to "borrow" money from the Hawaii Capital Loan Revolving Fund when the demand for SBIR Grants is greater than what was appropriated for in general funds.

14. HIGH TECHNOLOGY SPECIAL FUND  
Section 206M-15.5, HRS

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

The High Technology Development Corporation (HTDC) strongly disagrees with the Legislative Auditor's recommendation to repeal the High Technology Special Fund.

The review did not consider the "value of the program, the quality of its management, or whether the program deserved to be continued" but only focused on whether special funding was the appropriate means of funding the program or activity. However the method of funding will have a significant impact on the program. The repeal of this special fund will severely deteriorate the quality of the program.

The High Technology Special Fund is absolutely essential to the operation and management of the Manoa Innovation Center, the Maui Research and Technology Center, and Kaimuki Technology Enterprise Center, as well as other activities of HTDC in which fees are collected. The Auditor's reason for repealing the act, saying that "the fund is unable to support itself..." is totally incorrect. It has always been the intent that these projects be self-supporting in three to five years.

15. MOLOKAI REVOLVING LOAN PROGRAM  
Act 384, Session, Laws of Hawaii 1988

Auditor's Recommendation: Continue.

DBED Molokai Office concurs with the Auditor's report recommending that the Molokai revolving loan program continues.

16. NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY SPECIAL FUND  
Section 227D-5, HRS

Auditors's Recommendation: Repeal and budget through the general fund.

The Natural Energy Laboratory of Hawaii Authority (NELHA) Board of Directors and management is very much opposed to the Auditor's recommendation. The Auditor indicates that this special fund should be repealed because NELHA has not been able to sustain itself and continues to draw funds from the State's general fund. Although it is true at this time that revenues have been lagging significantly, the situation is not expected to continue beyond the next month.

The special fund allows NELHA to operate in a much more efficient manner than would otherwise be possible. This ability is important to the future development of NELHA. Without it, NELHA cannot guarantee an operating seawater system and all the other support services in the facility.

Based on conservative estimates of future contracts and occupancy of the facility, NELHA will reduce its state general fund requirements by approximately fifty percent. It is the intent of the Board of Directors and the current management to have NELHA become a self-sustaining Authority as soon as possible.

17. PETROLEUM PRODUCTS CONTROL REVOLVING FUND  
Section 125C-7, HRS

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

The DBED opposes the deactivation of the Petroleum Products Control Revolving Fund. It is the department's position that during an emergency, energy emergency response funds must be available to manage any energy shortage immediately. Deactivating this emergency fund would create an unnecessary need to dedicate overburdened staff resources to the sole task of providing support to the Administration to enable the Governor to call a special session of the Legislature for the purpose of requesting emergency funding. Given the unpredictable nature of energy emergencies, this reallocation of crisis management staff to a task that can be planned for in advance and accommodated by a petroleum products control fund flies in the face of effective energy emergency preparedness planning.

Finally, maintenance of the Petroleum Products Control Fund for the emergency receipt and expenditure of funds during an energy shortage is critical to the Governor's activation and implementation of the State's energy emergency response network. The need for and use of the Petroleum Products Control Fund in support of energy emergency management is analogous to the use of the Major Disaster Fund (Section 127-11, HRS) in support of a general emergency.

18. PUBLIC FACILITY REVENUE BOND SPECIAL FUND  
Section 206E-157, HRS

Auditor's Recommendation: Continue.

The Hawaii Community Development Authority agrees with the Legislative Auditor's recommendation to continue the Public Facility Revenue Bond Special Fund.

19. RESERVED HOUSING LOAN PROGRAM REVENUE BOND SPECIAL FUND  
Section 206E-109, HRS

Auditor's Recommendation: Repeal.

The Hawaii Community Development Authority (HCDA) disagrees with the Auditor's recommendation to repeal the Reserved housing Loan Program Revenue Bond Special Fund.

Although the fund has never been activated by HCDA, there is now a realistic possibility that HCDA may issue housing revenue bonds in the next two years. While HCDA has successfully utilized HFDC's Rental Housing System (RHS) bonds on three housing developments, the HFDC program may be reaching saturation point within the investment community. Plans call for the issuance of some \$240 million in RHS bonds within the next twelve to sixteen months. This would triple the current program and create diversification concerns, since the majority of the projects supporting the RHS are in the Honolulu area.

There is strong likelihood that future financing of rental projects must be administered by an agency other than HFDC. Therefore we recommend that this fund be continued.

20. SPECIAL FUND FOR OUT-OF-STATE OFFICES  
Section 201-85, HRS

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

The Department of Business, Economic Development and Tourism (DBED) has no objection to the Auditor's recommendation.

21. STATE DISASTER REVOLVING LOAN FUND  
Section 209-34, HRS

Auditor's Recommendation: Continue but consider transferring unneeded cash to the general fund.

The DBED disagrees with the recommendation to consider transferring unneeded cash to the general fund.

The balance in the revolving fund is needed to meet unexpected emergencies when natural disasters are declared by the Governor.

The department is still processing applications for the lava-ravaged Puna district of Hawaii County which was declared a disaster on April 27, 1990. More recently, on December 16, 1991, the Governor declared a disaster for Kauai County due to the damages resulting from the heavy rains and flash floods that occurred on December 13 and 14, 1991. The staff is presently on Kauai assisting applicants at the Disaster Application Center. More than 50 homes were severely damaged and some 100 other homes and businesses received lesser damage. It is expected that nearly all the funds in the revolving fund will be needed to meet the needs of those affected by this disaster.

22. WAIKIKI CONVENTION CENTER DEVELOPMENT REVOLVING FUND  
Section 206X-10, HRS

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

The Waikiki Convention Center Authority (WCCA) disagrees with the Auditor's recommendation. The WCCA revolving account will continue to have budgeted expenditures and increasing receipts dedicated to, or resulting from, the convention center development, construction, and operation.

Because of the sensitive nature of the project and the constant requirement for review of revised proposals, the WCCA would not be able to operate efficiently or effectively, if subject to unanticipated fluctuations in funding.

The Authority was established with a dedicated revolving fund by Act 96. The reasons for a WCCA revolving fund are still valid today.

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# A BILL FOR AN ACT

RELATING TO SPECIAL AND REVOLVING FUNDS.

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

1           SECTION 1. Act 240, Session Laws of Hawaii 1990, directed  
2 the legislative auditor to perform a comprehensive evaluation of  
3 the State's special and revolving funds administered by various  
4 agencies of the State to determine whether these funds should be  
5 continued, modified, or repealed. Act 240 expressed concern over  
6 the State's ability to maintain the integrity of the state  
7 budgetary process during times of uncertainty or when  
8 fluctuations in the economy affect general fund reserves.

9           Special and revolving funds receive and expend revenues  
10 directly without regard to the State's overall fiscal condition;  
11 thereby eliminating the normal role of the legislature in the  
12 process of budgetary review. Act 240 declared that it was  
13 fiscally prudent to examine the feasibility of maintaining,  
14 modifying, or repealing these funds in light of the difficulties  
15 the State may face during uncertain times in the future.

16           The purpose of this Act is to carry out the findings and  
17 recommendations of the legislative auditor with respect to the  
18 special and revolving funds administered under the housing  
19 finance and development corporation and the department of

1 business, economic development, and tourism.

2                   PART I. SPECIAL AND REVOLVING FUNDS

3                               UNDER THE HOUSING FINANCE

4                                       AND DEVELOPMENT CORPORATION

5           SECTION 2. Section 516-111, Hawaii Revised Statutes, is  
6 amended to read as follows:

7           "§516-111 Revenue bonds; special funds. [(a)] A separate  
8 special fund shall be established in accordance with section  
9 39-62 for each acquisition loan program or part thereof financed  
10 from the proceeds of the revenue bonds secured under the same  
11 trust indenture. [Each fund shall be designated "fee title  
12 acquisition loan program revenue bond special fund" and shall  
13 bear additional designation as the corporation deems appropriate  
14 to properly identify the fund.

15           (b) Notwithstanding any other law to the contrary,  
16 including particularly section 516-44, all revenues, income, and  
17 receipts derived from the benefits of the acquisition loan  
18 program for which the revenue bonds are issued shall be paid into  
19 the fee title acquisition loan program revenue bond special fund  
20 established for that program and applied as provided in the  
21 proceedings authorizing the issuance of the revenue bonds.]"

22           SECTION 3. Section 201E-217, Hawaii Revised Statutes, is  
23 amended by amending subsection (a) to read as follows:

1           "(a) There shall be a revolving fund to be known as the  
2 Hawaii development revolving fund which shall be administered by  
3 the corporation. All repayments of principal and interest on  
4 loans made by the corporation from the fund shall be placed in  
5 the Hawaii development revolving fund to be used for the purposes  
6 of this section. All unexpended and unencumbered moneys  
7 remaining in the fund at the close of each fiscal year which are  
8 deemed, by the director of finance, to be in excess of the moneys  
9 necessary to carry out the purposes of subsection (b) over the  
10 next following fiscal year shall lapse to the credit of the state  
11 general fund."

12           SECTION 4. Section 201E-132, Hawaii Revised Statutes, is  
13 repealed.

14           ["§201E-132 Rental assistance revolving fund. (a) There  
15 is created a rental assistance revolving fund to be administered  
16 by the corporation.

17           (b) The aggregate principal sum in the rental assistance  
18 revolving fund which may without limitation include sums made  
19 available from any government program or grant, from private  
20 grants or contributions, or by appropriation, shall be invested  
21 by the corporation in a manner which will preserve the principal  
22 sum and maximize the rate of return on investment of the fund;  
23 provided that any investment shall be consistent with section

1 201E-54 but need not comply with section 36-21.

2 (c) Earnings on the investment of the rental assistance  
3 revolving fund and amounts recovered by the corporation pursuant  
4 to section 201E-134(f) may be applied by the corporation to  
5 payments under the rental assistance contracts or to subsidize  
6 tenants' rents in projects developed under subpart II.A."]

7 SECTION 5. Section 201E-133, Hawaii Revised Statutes, is  
8 amended by amending subsections (c) and (d) to read as follows:

9 "(c) The corporation shall not enter into any rental  
10 assistance contract which would require the corporation to make  
11 payments at any time in excess of the amount [available at such  
12 time or times in the rental assistance revolving fund pursuant to  
13 section 201E-132 for the funding of such payments. Each rental  
14 assistance contract shall provide that rental assistance payments  
15 shall be made solely from the earnings on the investment of the  
16 rental assistance revolving fund.] appropriated by the  
17 legislature to carry out the purpose of this section at any time  
18 during a fiscal year.

19 (d) A rental assistance contract shall be for a term of not  
20 less than ten years and shall not be for a term in excess of the  
21 period [for which the corporation has invested the principal of  
22 the rental assistance revolving fund at a known rate of return.]  
23 established by the corporation under rules adopted in accordance

1 with chapter 91."

2 SECTION 6. Section 201E-208, Hawaii Revised Statutes, is  
3 repealed.

4 ["§201E-208 Rental housing revolving fund. There is  
5 created a rental housing revolving fund. Notwithstanding any law  
6 to the contrary, funds appropriated and all moneys received or  
7 collected by the corporation for the purposes of providing rental  
8 housing shall be deposited into the rental housing revolving  
9 fund. Funds may be further deposited into the rental housing  
10 revolving fund from the dwelling unit revolving fund established  
11 under section 201E-204. The proceeds in the rental housing  
12 revolving fund shall be used for the necessary expenses in  
13 administering and carrying out a rental housing program,  
14 including the development of facilities constructed in  
15 conjunction with rental housing projects; provided that priority  
16 shall be given to the development and financing of housing  
17 projects for elders."]

18 SECTION 7. Section 201E-160, Hawaii Revised Statutes, is  
19 amended:

20 (1) By amending subsection (f) to read as follows:

21 "(f) In return for the corporation's guarantee, the private  
22 lender shall remit out of interest collected an insurance fee as  
23 may be established by the corporation. The funds remitted shall

1 be [placed in the state mortgage guarantee fund provided for in  
2 subsection (k).] deposited to the credit of the state general  
3 fund."

4 (2) By amending subsection (k) to read as follows:

5 "(k) [There is created a special fund to be known as the  
6 "state mortgage guarantee fund". All interest and fees collected  
7 under this subpart by the director of finance and the corporation  
8 shall be deposited into this fund. The purpose of the fund is to  
9 guarantee payment of loans made under this subpart and to carry  
10 on the operations of the director of finance and the corporation  
11 in administering and granting loans under this subpart.] All  
12 disbursements [from the state mortgage guarantee fund] approved  
13 by the corporation under this section shall be paid out of funds  
14 appropriated by the legislature to carry out purposes of this  
15 subpart and shall be paid out on vouchers approved by the  
16 director of finance and warrants signed by the comptroller."

17 SECTION 8. The legislature finds that the state general  
18 fund moneys advanced to the credit of the homes revolving fund  
19 under the housing finance and development corporation, have not  
20 been reimbursed to the general fund by the corporation as  
21 mandated under section 201E-207(b). The corporation is hereby  
22 directed to reimburse all debts outstanding to the director of  
23 finance prior to June 30, 1993.

1                   PART II. SPECIAL AND REVOLVING FUNDS  
2                   UNDER THE DEPARTMENT OF BUSINESS,  
3                   ECONOMIC DEVELOPMENT, AND TOURISM

4           SECTION 9. Section 206J-17, Hawaii Revised Statutes, is  
5 amended to read as follows:

6           "§206J-17 [Aloha Tower fund. There is created the Aloha  
7 Tower fund. All moneys, rentals, charges, and other revenues of  
8 the development corporation shall be deposited into the fund;  
9 provided that the development corporation may establish a  
10 separate account with respect to each issue of bonds issued under  
11 this chapter and direct the moneys, rentals, charges, and other  
12 revenues pledged to the payment of such issue of bonds be  
13 credited to such account and, as permitted by section  
14 206J-12(g)(7), designate a trustee to receive and receipt for,  
15 hold, and administer the moneys in such account. In the event  
16 moneys are to be credited to a separate account held by a trustee  
17 as aforesaid, such moneys may be paid directly to such trustee  
18 with appropriate entries made with respect to the fund for  
19 purposes of accounting. The moneys on deposit in the fund shall  
20 be used for the purposes of this chapter.] Funds for operation;  
21 disposition of revenues; disposition of bond proceeds. (a) All  
22 moneys to meet the general operating needs and expenses of the  
23 development corporation shall be allocated by the legislature

1 through appropriations out of the state general fund. The  
2 development corporation shall include in its budgetary request  
3 for each upcoming fiscal period, the amounts necessary to  
4 effectuate the purposes of this section.

5 (b) Except as provided in subsection (c) all moneys,  
6 rentals, charges, and other fees collected by the development  
7 corporation under this chapter shall be deposited to the credit  
8 of the state general fund.

9 (c) The development corporation shall establish separate  
10 special funds in accordance with section 39-62 for the deposit of  
11 the proceeds of bonds authorized under this chapter."

12 SECTION 10. Section 211-4, Hawaii Revised Statutes, is  
13 amended to read as follows:

14 "§211-4 Guarantee fees. The director of business, economic  
15 development, and tourism may fix guarantee fees. The guarantee  
16 fees shall be computed as a percentage of the loan principal  
17 outstanding at the beginning of each year. The guarantee fees  
18 shall not be more than three per cent a year. These fees shall  
19 be deposited [in a special fund in the treasury of the State,  
20 established as the commercial loan guarantee reserve fund.] to  
21 the credit of the state general fund."

22 SECTION 11. Section 206M-17, Hawaii Revised Statutes, is  
23 amended to read as follows:

1 "[]§206M-17[] Development fund. The development  
2 corporation shall establish a separate development fund with  
3 respect to each issue of bonds issued under this chapter, shall  
4 provide an appropriate designation therefor, and shall direct all  
5 revenues and receipts pledged to the payment of such issue of  
6 bonds to be deposited into such fund and, as permitted by section  
7 206M-9(g)(8), designate a trustee to receive and receipt for,  
8 hold, and administer the moneys in such fund. The development  
9 corporation may establish such other funds and accounts as it may  
10 deem appropriate. Unless a trustee is designated as provided in  
11 this chapter, all funds and accounts of the development  
12 corporation shall be held and administered by the state director  
13 of finance as provided in section 37-54.] Revenue bond fund  
14 accounts. The development corporation shall establish separate  
15 special funds in accordance with section 39-62 for the deposit of  
16 the proceeds of bonds authorized under this chapter."

17 SECTION 12. Section 201C-3, Hawaii Revised Statutes, is  
18 amended to read as follows:

19 "[]§201C-3[] Revolving fund; established. There is  
20 established a financial services assistance revolving fund from  
21 which moneys shall be expended by the department under this  
22 chapter. All moneys appropriated to the fund by the legislature  
23 or received in repayment of loan principal, payment of interest,

1 or fees, shall be deposited into the revolving fund and used for  
2 the purposes of this chapter.] Financial assistance program;  
3 source of funds. (a) All moneys to carry out the purposes of  
4 the financial services assistance program under this chapter  
5 shall be allocated by the legislature through appropriations out  
6 of the state general fund. The department shall include in its  
7 budgetary request for each upcoming fiscal period, the amounts  
8 necessary to effectuate the purposes of this section.

9 (b) All moneys received in repayment of loan principal,  
10 payment of interest, or fees, under this chapter shall be  
11 deposited to the credit of the state general fund."

12 SECTION 13. Section 212-9, Hawaii Revised Statutes, is  
13 amended to read as follows:

14 "§212-9 Special fund. There is established in the state  
15 treasury a fund to be known as the foreign trade zones special  
16 fund. All fees or other moneys collected under this chapter  
17 shall be deposited in this fund. All moneys in the fund are  
18 hereby appropriated for the purposes of and shall be expended by  
19 the public corporation for the operation and maintenance of the  
20 zone. All unexpended and unencumbered moneys remaining in the  
21 fund at the close of each fiscal year which are deemed, by the  
22 director of finance, to be in excess of the moneys necessary to  
23 carry out the purposes of this section over the next following

1 fiscal year shall lapse to the credit of the state general fund."

2 SECTION 14. Section 210D-4, Hawaii Revised Statutes, is  
3 amended to read as follows:

4 "§210D-4 Hawaii community-based development [revolving  
5 fund; established. There is established a revolving fund to be  
6 known as the Hawaii community-based development revolving fund  
7 from which moneys shall be loaned or granted by the department  
8 under this chapter. All moneys appropriated to the fund by the  
9 legislature, received in repayment of loan principal, or payment  
10 of interest, and fees shall be deposited into the revolving fund  
11 and used for the purposes of this chapter. The department may  
12 use all appropriations and other moneys in the revolving fund not  
13 appropriated for a designated purpose to make grants or loans,  
14 provided that at no time shall the department reallocate funds  
15 from the loan program to the grant program so that insufficient  
16 funds remain available to make loans.] program; source of  
17 operating funds. (a) All moneys to carry out the purposes of  
18 the Hawaii community-based program under this chapter shall be  
19 loaned or granted by the department or allocated by the  
20 legislature through appropriations out of the state general fund.  
21 The department shall include in its budgetary request for each  
22 upcoming fiscal period, the amounts necessary to effectuate the  
23 purposes of this section.

1       (b) All moneys received in repayment of loan principal,  
2 interest, and fees shall be deposited to the credit of the state  
3 general fund."

4       SECTION 15. Section 210D-8, Hawaii Revised Statutes, is  
5 amended to read as follows:

6       "[[§210D-8]] Powers and duties. The department shall  
7 have the necessary powers to carry out the purposes of this  
8 chapter, including the following:

- 9       (1) With advice from the council, prescribe the  
10            qualifications for eligibility of applicants for loans;
- 11       (2) With advice from the council, establish preferences and  
12            priorities in determining eligibility for loans and  
13            loan repayment requirements;
- 14       (3) Establish the conditions, consistent with the purpose  
15            of this chapter, for the granting or for the  
16            continuance of a loan;
- 17       (4) Provide for inspection at reasonable hours of the plant  
18            facilities, books, and records of a community-based  
19            business or enterprise which has applied for or has  
20            been granted a loan and require the submission of  
21            progress and final reports;
- 22       (5) Make loans and grants for traditional or small  
23            community-based enterprises, including loans or grants

1 for start-up financing of plant construction,  
2 conversion, expansion, the acquisition of land for  
3 expansion, the acquisition of equipment, machinery,  
4 supplies, or materials or for the supplying of working  
5 capital, consistent with this chapter;

6 (6) Determine the necessity for and the extent of security  
7 required in a loan;

8 (7) Prescribe appropriate management counseling and  
9 monitoring of business activities;

10 (8) [Administer the Hawaii community-based development  
11 revolving fund;

12 (9)] Include in its budget for subsequent fiscal periods  
13 amounts necessary to effectuate the purposes of this  
14 chapter;

15 [(10)] (9) Participate in loans made to qualified persons by  
16 private lenders;

17 [(11)] (10) Establish interest rates chargeable by the State  
18 for direct loans and by private lenders for  
19 participation loans; and

20 [(12)] (11) Adopt rules pursuant to chapter 91 to implement  
21 this chapter."

22 SECTION 16. Section 189-23, Hawaii Revised Statutes, is  
23 amended to read as follows:

1           "§189-23 Hawaii large fishing vessel purchase,  
2 construction, renovation, maintenance, and repair loan revolving  
3 fund. (a) There is established the Hawaii large fishing vessel  
4 purchase, construction, renovation, maintenance, and repair loan  
5 revolving fund into which shall be deposited all moneys received  
6 as repayment of loans and interest payments as provided for in  
7 this part. The department may transfer moneys from the revolving  
8 fund established by this section either to the Hawaii small  
9 fishing vessel purchase, construction, renovation, maintenance,  
10 and repair loan revolving fund established by section 189-43, the  
11 Hawaii capital loan revolving fund established by section 210-3,  
12 or the Hawaii innovation development revolving fund established  
13 by section 211E-2, and moneys from these three funds shall be  
14 disbursed by the department pursuant to chapters 189, 210, and  
15 211E, respectively, and further, the department may transfer  
16 moneys from the revolving funds enumerated in this section to the  
17 Hawaii large fishing vessel purchase, construction, renovation,  
18 maintenance, and repair loan revolving fund for disbursement  
19 pursuant to this chapter; provided that:

- 20           (1) The amount of moneys transferred into any revolving  
21                 fund shall not exceed \$1,000,000 for each revolving  
22                 fund within the calendar year; and  
23           (2) The department shall report any transfer under this

1 section to the legislature within ten days of the  
2 transfer.

3 (b) All unexpended and unencumbered moneys remaining in the  
4 fund at the close of each fiscal year which are deemed, by the  
5 director of finance, to be in excess of the moneys necessary to  
6 carry out the purposes of this section over the next following  
7 fiscal year shall lapse to the credit of the state general fund."

8 SECTION 17. Section 189-43, Hawaii Revised Statutes, is  
9 amended to read as follows:

10 "§189-43 Hawaii small fishing vessel purchase,  
11 construction, renovation, maintenance, and repair loan program;  
12 revolving fund. (a) There is created the Hawaii small fishing  
13 vessel purchase, construction, renovation, maintenance, and  
14 repair loan program, which shall be administered by the director  
15 in accordance with the spirit and intent of this part.

16 (b) There is established the Hawaii small fishing vessel  
17 purchase, construction, renovation, maintenance, and repair loan  
18 revolving fund into which shall be paid all moneys received as  
19 repayment of loans and interest payments as provided in this  
20 part. The department may transfer moneys from the revolving fund  
21 established by this section either to the Hawaii large fishing  
22 vessel purchase, construction, renovation, maintenance, and  
23 repair loan revolving fund established by section 189-23, the

1 Hawaii capital loan revolving fund established by section 210-3,  
2 or the Hawaii innovation development loan revolving fund  
3 established by section 211E-2, and moneys from these three funds  
4 shall be disbursed by the department pursuant to chapters 189,  
5 210, and 211E, respectively, and further, the department may  
6 transfer moneys from the revolving funds enumerated in this  
7 section to the Hawaii small fishing vessel purchase,  
8 construction, renovation, maintenance, and repair loan revolving  
9 fund for disbursement pursuant to this chapter; provided that:

10 (1) The amount of moneys transferred into any revolving  
11 fund shall not exceed \$1,000,000 for each revolving  
12 fund within the calendar year; and

13 (2) The department shall report any transfer under this  
14 section to the legislature within ten days of the  
15 transfer.

16 (c) All unexpended and unencumbered moneys remaining in the  
17 fund at the close of each fiscal year which are deemed, by the  
18 director of finance, to be in excess of the moneys necessary to  
19 carry out the purposes of this section over the next following  
20 fiscal year shall lapse to the credit of the state general fund.

21 (d) This section shall be repealed on \_\_\_\_\_ ; provided that  
22 the director shall transfer to the credit of the state general  
23 fund, all unexpended or unencumbered balances remaining in the

1 fund, prior to its repeal."

2 SECTION 18. Section 206M-15, Hawaii Revised Statutes, is  
3 amended to read as follows:

4 "§206M-15 High technology research and development

5 [revolving fund. (a) There is established the high technology  
6 research and development revolving fund into which shall be  
7 deposited all moneys as may be appropriated by the legislature or  
8 as may be contributed, transferred, or accrued to the development  
9 corporation to fund high technology research and development  
10 projects, and from which the development corporation may fund  
11 high technology research and development projects under  
12 agreements with any state or county agency or other  
13 organizations, including high technology companies.] loans and  
14 grants. (a) All moneys necessary to carry out the purposes of  
15 this section shall be allocated by the legislature through  
16 appropriations out of the state general fund. The development  
17 corporation shall include in its budgetary request for each  
18 upcoming fiscal period, the amounts necessary to effectuate the  
19 purposes of this section. All moneys, interest charges, and  
20 other fees collected by the development corporation under this  
21 section shall be deposited to the credit of the state general  
22 fund. In making any expenditure under this section, the  
23 development corporation shall analyze each funding request to

1 determine whether the project to be undertaken will be  
2 economically viable and beneficial to the State.

3 (b) The development corporation may provide grants of fifty  
4 per cent of the federal grant up to \$25,000 to each business in  
5 Hawaii that receives a federal small business innovation research  
6 phase I grant or contract from any participating federal agency  
7 during calendar year 1989 or subsequent years subject to the  
8 availability of funds.

9 (c) The development corporation shall adopt rules pursuant  
10 to chapter 91 that:

11 (1) Specify the qualifications for eligibility of grant  
12 applicants;

13 (2) Establish priorities in determining eligibility in the  
14 event that insufficient funds are available to fund  
15 otherwise qualified applicants; and

16 (3) Give preference to all qualified businesses that  
17 received a single award in one calendar year over  
18 multiple award grantees.

19 The development corporation may adopt any other rules pursuant to  
20 chapter 91 necessary for the purposes of this section.

21 (d) If funds appropriated for the purpose of making grants  
22 under this section are inadequate to satisfy all qualified  
23 requests, the development corporation shall apply for funds to be

1 transferred from the Hawaii capital loan revolving fund to  
2 provide the grants in accordance with subsection (b). The amount  
3 of any single transfer of funds shall not exceed \$100,000, and  
4 the development corporation shall transfer the entire amount back  
5 to the Hawaii capital loan revolving fund within twelve months of  
6 receiving the funds. No more than one fund transfer shall be  
7 outstanding at any one time. The director of business, economic  
8 development, and tourism may transfer funds from the Hawaii  
9 capital loan revolving fund to the high technology research and  
10 development [revolving fund] corporation upon request to carry  
11 out the purposes of this section. Transfers of funds shall be  
12 made without any charges or fees."

13 SECTION 19. Section 206M-15.5, Hawaii Revised Statutes, is  
14 amended to read as follows:

15 "[[]§206M-15.5[] High technology special fund. There is  
16 established in the state treasury a fund to be known as the high  
17 technology special fund, into which shall be deposited all moneys  
18 and fees from tenants or other users of the development  
19 corporation's industrial parks, projects, other leased  
20 facilities, and other services and publications. All moneys in  
21 the fund are hereby appropriated for the purposes of and shall be  
22 expended by the development corporation for the operation,  
23 maintenance, and management of its industrial parks, projects,

1 facilities, services, and publications.] Industrial parks,  
2 projects, leased facilities, and other services; source of funds.

3 (a) All moneys necessary for the operation, maintenance, and  
4 management of industrial parks, projects, facilities, and  
5 services, and for the funding of publications shall be allocated  
6 by the legislature through appropriations out of the state  
7 general fund. The development corporation shall include in its  
8 budgetary request for each upcoming fiscal period, the amounts  
9 necessary to effectuate the purposes of this section.

10 (b) All moneys and fees received from tenants or other  
11 users of the development corporation's industrial parks,  
12 projects, other leased facilities, and other services and  
13 publications shall be deposited to the credit of the state  
14 general fund."

15 SECTION 20. Section 227D-5, Hawaii Revised Statutes, is  
16 amended to read as follows:

17 "[~~§~~227D-5~~] Special fund. There is established in the~~  
18 state treasury a fund to be known as the natural energy  
19 laboratory of Hawaii authority special fund, into which shall be  
20 deposited all moneys and fees from tenants or other users of the  
21 authority's parks, projects, other leased facilities, and other  
22 services and publications. All moneys in the fund are  
23 appropriated for the purposes of and shall be expended by the

1 authority for the operation, maintenance, and management of its  
2 parks, projects, facilities, services, and publications.] Project  
3 operating funds; disposition of receipts. (a) All moneys for  
4 the operation, maintenance, and management of the natural energy  
5 laboratory, and any park, project, facility, service, or  
6 publication of the authority shall be allocated by the  
7 legislature through appropriations out of the state general fund.  
8 The authority shall include in its budgetary request for each  
9 upcoming fiscal period, the amounts necessary to effectuate the  
10 purposes of this section.

11 (b) All moneys and fees collected from tenants and other  
12 users of the authority's parks, projects, leased facilities,  
13 other services, and publications shall be deposited to the credit  
14 of the state general fund."

15 SECTION 21. Section 125C-7, Hawaii Revised Statutes, is  
16 amended to read as follows:

17 "§125C-7 Petroleum products control [fund. There is hereby  
18 established in the state treasury a revolving fund to be known as  
19 the petroleum products control fund. All fees or charges  
20 collected for services furnished or petroleum products sold, all  
21 moneys borrowed, and all contributions or grants of money  
22 received under this chapter shall be deposited in this fund;  
23 provided that the governor may establish other suitable funds in

1 the state treasury for deposit and separate accounting of moneys  
2 contributed or granted for special purposes under this chapter.  
3 All moneys in the petroleum products control fund are  
4 appropriated for the purposes of this chapter and shall be  
5 expended by the governor or the governor's authorized  
6 representative. The governor or the governor's authorized  
7 representative may expend and use the moneys in the petroleum  
8 products control fund to purchase petroleum products, to obtain  
9 services, equipment, materials, and supplies necessary under this  
10 chapter, and to repay moneys borrowed under this chapter.];

11 source of funds; disposition of receipts. (a) All moneys to  
12 purchase petroleum products, to obtain services, equipment,  
13 materials, and supplies necessary to carry out this chapter shall  
14 be allocated by the legislature through appropriations out of the  
15 state general fund.

16 (b) All fees or charges collected for services furnished or  
17 petroleum products sold, all moneys borrowed, and all  
18 contributions or grants of money received under this chapter  
19 shall be deposited to the credit of the general fund."

20 SECTION 22. Section 206E-109, Hawaii Revised Statutes, is  
21 amended to read as follows:

22 "§206E-109 Revenue bonds; special funds. [(a) A separate  
23 special fund shall be established for each reserved housing loan

1 program or part thereof financed from the proceeds of the revenue  
2 bonds secured under the same trust indenture. Each fund shall be  
3 designated "reserved housing loan program revenue bond special  
4 fund" and shall bear additional designation as the authority  
5 deems appropriate to properly identify the fund.

6 (b) Notwithstanding any other law to the contrary,  
7 including specifically section 206E-16, all revenues, income, and  
8 receipts derived from the benefits of the reserved housing loan  
9 program for which the revenue bonds are issued shall be paid into  
10 the reserved housing loan program revenue bond special fund  
11 established for that program and applied as provided in the  
12 proceedings authorizing the issuance of the revenue bonds.] The  
13 authority shall establish a separate special fund in accordance  
14 with section 39-62 for each reserved housing loan program or part  
15 thereof financed from the proceeds of the revenue bonds secured  
16 under the same trust indenture."

17 SECTION 23. Section 201-85, Hawaii Revised Statutes, is  
18 amended to read as follows:

19 "[~~§~~201-85 Exemptions.~~]~~ The department is authorized to  
20 hire employees necessary to staff its out-of-state offices  
21 subject to chapters 76 and 77 and legislative appropriations.

22 The department may also appoint such other employees exempt  
23 from chapters 76 and 77 as may be necessary to administer the

1 affairs of its out-of-state offices. The initial appointment  
2 shall not exceed three years, during which time the department  
3 shall submit to the legislature a request for approval prior to  
4 continuation of the position. The department shall set the  
5 duties, responsibilities, salaries, holidays, vacations, leaves,  
6 hours of work, and working conditions for these employees.

7 Subject to the approval of the director of budget and  
8 finance, the department may be exempted from the following state  
9 laws only to the extent necessary for the conduct of its  
10 business in operating out-of-state offices:

- 11 (1) Sections 36-27 and 36-30, relating to special fund  
12 transfers and reimbursements to the general fund;
- 13 (2) Chapter 103, relating to advertising for bids and  
14 purchases to be made in Hawaii whenever public moneys  
15 are expended;
- 16 (3) Chapter 36, relating to management of state funds;
- 17 (4) Chapter 38, relating to deposits of public funds;
- 18 (5) Chapter 40, relating to audit and accounting, except  
19 that the department shall comply with section 40-81;
- 20 (6) Chapter 76, relating to civil service;
- 21 (7) Chapter 77, relating to compensation;
- 22 (8) Section 78-1, relating to public employment, except  
23 when expressly hiring personnel subject to section

1           78-1; and

2           (9) Section 171-30, relating to acquisition of real  
3           property.

4           [Notwithstanding any other law to the contrary, the  
5 department may establish a special fund for the deposit of moneys  
6 received from the legislature for the purpose of establishing and  
7 operating its out-of-state offices and for the deposit of other  
8 sources of income or revenue.] All moneys necessary for the  
9 establishment and operation of out-of-state offices shall be  
10 allocated by the legislature through appropriations out of the  
11 state general fund. The department shall include in its  
12 budgetary request for each upcoming fiscal period, the amounts  
13 necessary to effectuate the purposes of this section."

14           SECTION 24. Section 209-34, Hawaii Revised Statutes, is  
15 amended to read as follows:

16           "**§209-34 State disaster revolving loan fund.** There is  
17 established the state disaster revolving loan fund into which  
18 shall be deposited all moneys received as repayment of loans and  
19 interest payments as provided in this part, and from which the  
20 director of business, economic development, and tourism may make  
21 loans in accordance with provisions of this part. All unexpended  
22 and unencumbered moneys remaining in the fund at the close of  
23 each fiscal year which are deemed, by the director of finance, to

1 be in excess of the moneys necessary to carry out the purposes of  
2 this section over the next following fiscal year shall lapse to  
3 the credit of the state general fund."

4 SECTION 25. Section 206X-10, Hawaii Revised Statutes, is  
5 amended to read as follows:

6 "[[]§206X-10[[]] Waikiki convention center development  
7 [revolving fund. There is created the Waikiki convention center  
8 development revolving fund into which all receipts and revenues  
9 of the authority and all legislative appropriations to the  
10 revolving fund shall be deposited. Proceeds from the fund shall  
11 be used for the purposes of this chapter.] program; source of  
12 funding; disposition of receipts. (a) All moneys necessary to  
13 carry out the purposes of this chapter shall be allocated by the  
14 legislature through appropriations out of the state general fund.  
15 The authority shall include in its budgetary request for each  
16 upcoming fiscal period, the amounts necessary to effectuate the  
17 purposes of this section.

18 (b) All receipts and revenues of the authority collected  
19 under this chapter shall be deposited to the credit of the state  
20 general fund."

21 SECTION 26. Section 206X-7, Hawaii Revised Statutes, is  
22 amended by amending subsection (c) to read as follows:

23 "(c) As a further condition and consideration of the right

1 to develop the real property within the convention center  
2 district under the agreement, pursuant to this chapter, the  
3 private developer shall pay the sum of \$5,000,000 as contribution  
4 for the payment of costs relating to:

- 5 (1) The temporary or permanent relocation of existing  
6 licensees and lessees who are displaced because of the  
7 development within the convention center district  
8 pursuant to the convention center development plan by  
9 the private developer; or
- 10 (2) Settlement payments in lieu of payments provided under  
11 paragraph (1) to existing licensees and lessees who are  
12 displaced by the private developer because of the  
13 development within the convention center district  
14 pursuant to the convention center development plan;  
15 provided that each displaced licensee or lessee shall have the  
16 option to select either relocation or a settlement payment.

17 Upon the approval by the authority of the relocation plan  
18 which shall be prepared and submitted by the private developer to  
19 the authority, the private developer shall deliver to the  
20 authority for deposit [into the Waikiki convention center  
21 development revolving] to the credit of the state general fund  
22 the sum of \$5,000,000 in the form of a certified check, an  
23 irrevocable letter of credit, or surety bond. The sum of

1 \$5,000,000 shall be used for the implementation of the relocation  
2 plan, provided that the sum and all interest accrued thereon  
3 shall be refunded to the private developer in the event this  
4 chapter expires and becomes null and void.

5         The relocation plan shall include agreement by the private  
6 developer to give every displaced licensee or lessee who does not  
7 elect to receive a settlement payment under paragraph (2) an  
8 unassignable right of first refusal of any license or lease of  
9 space within the convention center district developed and offered  
10 for such activities similar in size and nature to the business  
11 conducted by the licensee or lessee at the time of displacement  
12 unless such right is waived by any licensee or lessee.

13         The authority shall cause to be established a task force to  
14 assist in the implementation of the relocation plan. The task  
15 force shall include persons representing agencies, organizations,  
16 government, and private interests."

17         SECTION 27. 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.

23         SECTION 28. Statutory material to be repealed is bracketed.

1 New statutory material is underscored.

2       SECTION 29. This Act shall take effect on July 1, 1993;  
3 provided that the director of business, economic development, and  
4 tourism and the board of directors of the housing finance and  
5 development corporation shall transfer to the credit of the state  
6 general fund, all unexpended or unencumbered balances remaining  
7 in any special or revolving fund within their respective agencies  
8 that are scheduled for repeal under this Act, prior to June 30,  
9 1993; provided further that section 8 shall take effect on  
10 July 1, 1992.

11

12

INTRODUCED BY: \_\_\_\_\_

JOHN WAIHEE  
GOVERNOR



YUKIO TAKEMOTO  
DIRECTOR

EUGENE S. IMAI  
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 15, 1992

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OFC. OF THE AUDITOR  
STATE OF HAWAII

Ms. Marion Higa  
Acting Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813

Dear Ms. Higa:

The Department of Budget and Finance has reviewed the draft reports relating to the review of special and revolving funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism. We have reviewed each agency's response to your recommendations, relating to their respective special and revolving funds, and concur with their findings and comments, given the Legislature's original intent of establishing the various funds.

We would like to take this opportunity to reiterate our policy on special and revolving funds. The policy we have adhered to is that the establishment of special and revolving funds is based on each program's uniqueness and ability to generate sufficient revenues from its beneficiaries to sustain the program. We believe that in order to conduct a thorough review and assessment of the funds, an evaluation of whether the programs are meeting their legislatively mandated purpose is essential, in order to determine the continuation of the special or revolving funds.

Thank you for the opportunity to comment on these studies.

Sincerely,

YUKIO TAKEMOTO

