
**Review of Revolving Funds,
Trust Funds, and Trust Accounts
of the Department of Accounting
and General Services,
Department of Agriculture,
Department of Budget and
Finance, and Department of
Land and Natural Resources**

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

Report No. 99-6
January 1999

THE AUDITOR
STATE OF HAWAII

**Review of Revolving Funds,
Trust Funds, and Trust Accounts
of the Department of Accounting
and General Services,
Department of Agriculture,
Department of Budget and
Finance, and Department of
Land and Natural Resources**

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

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 99-6
January 1999

Foreword

This is a report of our review of revolving funds, trust funds, and trust accounts used by or administratively attached to the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources.

Section 23-12, Hawaii Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of these four departments.

We wish to acknowledge the cooperation extended to us by the officials and staff of the four departments.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background	1
Description of Revolving Funds, Trust Funds, and Trust Accounts	2
Criteria for Reviewing Revolving Funds, Trust Funds, and Trust Accounts	2
Objectives of the Review	4
Scope and Methodology	4

Chapter 2 Department of Accounting and General Services

Funds Established Under Statutory Authority	5
Accounts Established Under Administrative Authority	12

Chapter 3 Department of Agriculture

Funds Established Under Statutory Authority	21
Accounts Established Under Administrative Authority	28

Chapter 4 Department of Budget and Finance

Funds Established Under Statutory Authority	37
Accounts Established Under Administrative Authority	46

Chapter 5 Department of Land and Natural Resources

Funds Established Under Statutory Authority	51
Accounts Established Under Administrative Authority	54

Responses of the Affected Agencies	61
--	----

Chapter 1

Introduction

This is a report on our review of revolving funds, trust funds, and trust accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources. Section 23-12, Hawaii Revised Statutes (HRS), requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of the revolving and trust funds of these four departments. The first report conducted in 1993 (Report No. 94-4) reviewed 57 trust funds, revolving funds, and trust accounts.

Background

In 1990, in Act 240, the Legislature required our office to conduct a review of special and revolving funds and to recommend whether they be continued, modified, or repealed. The Legislature was concerned that the proliferation of these types of funds had diverted resources from the general fund and, as a result, had weakened the Legislature's control over public moneys. Moneys deposited to and spent from special and revolving funds are not subject to the same level of legislative scrutiny as those that are deposited to and expended from the general fund.

We completed the review of special and revolving funds required by Act 240 and presented the results of those reviews in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds and recommended that 70 of them be repealed, discontinued, or sunsetted in the future. We also found that many funds held cash balances far in excess of program needs and recommended that excess cash be transferred to the general fund.

Section 23-12, HRS, expands the concept of Act 240. Instead of *special* and revolving funds, Chapter 23, HRS, requires our office to review existing revolving and *trust* funds at least once every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose.

Description of Revolving Funds, Trust Funds, and Trust Accounts

Revolving funds

Section 37-62, HRS, 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.”

Revolving funds are often established with an appropriation of seed money from the general fund. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. The state motor pool fund is another example of a revolving fund. The fund purchases and maintains the State’s fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

Trust funds

Section 37-62, HRS, defines a trust fund as “a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.”

Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is one example of a trust fund. Contributions and payments into the fund are to be held for the beneficiaries of the pension fund. Tenants’ security deposits are held in trust fund accounts. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

Trust accounts are typically separate holding or clearing accounts for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Revolving Funds, Trust Funds, and Trust Accounts

We essentially used the same criteria to review *revolving funds* as we used in our prior review of special and revolving funds. The criteria for reviewing revolving funds are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- 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 that is removed from the normal budget and appropriations process;
- Demonstrates the capacity to be financially self-sustaining; and
- Is an appropriate financing mechanism for the program or operation.

The first and second criteria were taken from Act 240, SLH 1990. The third and fourth were developed by our office from a review of public finance literature.

The criteria used to review *trust funds* are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Provides the benefits or services originally intended to the beneficiaries;
- Requires no general fund appropriation; and
- Meets the definition of a trust fund.

The first two criteria were taken from the first two objectives of Section 23-12, HRS, asking for (1) an evaluation of the original intent of each fund, and (2) the degree to which each fund achieves its stated purpose. The third criterion assesses whether the fund depends upon general fund appropriations. If general fund appropriations are needed to finance its activities (as opposed to providing seed moneys only), classification of the fund as a trust fund may not be warranted. The fourth criterion assesses whether the fund is held by the State for the benefit of those with a vested interest in the assets.

Similar criteria are used for the review of *trust accounts*. These are the extent to which each account:

- Continues to serve the purpose for which it was created; and
- Requires no general fund appropriation.

Objectives of the Review

1. To identify and review each of the revolving funds, trust funds, and trust accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources.
2. To provide a five-year fiscal summary for each fund or account reviewed.

Scope and Methodology

This review examines those revolving and trust funds and trust accounts administered by or administratively attached to the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources during the five-year period under review.

We researched the legislative history and other supporting documents to determine each fund or account's intent and purpose. We also reviewed any performance standards established by the departments and other documents as appropriate. However, we found that a majority of the funds and accounts did not have any performance standards. To gain an understanding of fund operations, we interviewed key fiscal and program personnel. We did not audit the financial data provided by the agencies for the five fiscal years. This data is being provided for informational purposes only. We then applied the criteria explained in this chapter. Financial data for FY1992-93 (ending balance) included in our previous report were estimates provided by the departments and may not correspond to the financial data for FY1993-94 (beginning balance) contained in this report.

Our work was performed from July 1998 through December 1998 in accordance with generally accepted government auditing standards.

Chapter 2

Department of Accounting and General Services

This chapter presents the results of our review of 5 revolving funds, 4 trust funds, and 16 trust accounts used by the Department of Accounting and General Services. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first those funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Captain Cook Memorial Fund, Section 6E-33, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$5	\$3	\$3	\$8	\$5
Revenues	0	0	5	3	2
Interest	0	0	0	0	0
Expenditures	(2)	0	0	(6)	(2)
Transfers	0	0	0	0	0
Ending Fund Balance	\$3	\$3	\$8	\$5	\$5
Encumbrances	0	0	0	0	0

This fund was created in 1928 with the proceeds of the sale of 10,000 fifty-cent coins minted for the Captain Cook sesquicentennial celebration. The statutory authority for this fund was provided by Act 104, Session Laws of Hawaii 1976. The purpose of the fund is to obtain various documents of historical value for the State Archives. Moneys from the fund may be used for the following:

- Acquisition of original books, mementos, pamphlets, documents, or other articles of historical value relating to the life of Captain James Cook or the history, discovery, and exploration of the Hawaiian Islands; and
- Publication of books, documents, pamphlets, or other publications relating to Captain James Cook or the Hawaiian Islands.

The fund does not receive any general fund appropriations. The primary sources of revenue include proceeds from the sale of the publication “Official Publications of the Territory of Hawaii” and cash gifts to the State Archives. The fund continues to serve the purpose for which it was created and continues to benefit the State Archives. Moneys are being used to purchase materials for the State Archives’ library and special collections and to preserve and facilitate access to those collections. This fund meets the criteria for a trust fund.

Interagency Federal Revenue Maximization Revolving Fund, Section 29-24, HRS

Financial Data for Fiscal Years 1995-1998 (in thousands)

	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$318	\$6,003
Revenues	0	391	6,648	10,242
Interest	0	0	72	305
Expenditures	0	(73)	(1,035)	(8,016)
Transfers	0	0	0	0
Ending Fund Balance	\$0	\$318	\$6,003	\$8,534
Encumbrances	0	0	0	(259)

This fund was created through Act 11 of the 1995 special session of the Legislature. The purpose of Act 11 was to improve government operations by creating the Interagency Federal Revenue Maximization Revolving Fund to aggressively pursue, collect, and distribute additional federal fund reimbursements. Proceeds collected from the federal government and third-party payers for reimbursable costs not previously claimed by the State are deposited into this fund. The fund continues to serve this purpose. The State has contracted with a certified public accounting firm on a contingent fee basis to assist federally-funded state programs in the Department of Human Services, Department of Education, and Department of Health in pursuing additional claims. Collections are transferred to the department claiming the reimbursement, to the general fund, and to the consultant based on the amount the consultant recovers for the State. On June 30, 1999, all moneys remaining in the fund will revert to the general fund and the revolving fund will be terminated.

Kamehameha Day Celebration-Donation/Gift, Section 8-5, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$6	\$5	\$7	\$14	\$29
Revenues	9	3	10	65	193
Interest	0	0	0	0	0
Expenditures	(10)	(1)	(3)	(50)	(105)
Transfers	0	0	0	0	0
Ending Fund Balance	\$5	\$7	\$14	\$29	\$117
Encumbrances	0	0	0	0	(26)

This account was statutorily established to support the King Kamehameha Celebration Commission. The commission consists of eighteen members appointed by the governor who serve without compensation. The commission is charged with the responsibility of coordinating the King Kamehameha Day Celebration activities every June 11. Celebration events supported by the commission include the King Kamehameha Celebration Floral Parade, King Kamehameha Hula Competition, and King Kamehameha Ho'olaule'a on Molokai. The account was established to account for moneys appropriated by the Legislature, donations, and moneys raised by the commission to defray administrative costs. The account continues to serve this purpose and does not receive any general fund appropriations. Donations for the Kamehameha Day Celebration have been received from Hawaiian Airlines, Estate of James Campbell, and Grueninger Tours.

Nonpresentment of Warrants and Checks Trust Fund, Section 40-68, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$500	\$500	\$500	\$500
Revenues	500	500	212	124	117
Interest	0	0	0	0	0
Expenditures	0	(500)	(212)	(124)	(117)
Transfers	0	0	0	0	0
Ending Fund Balance	\$500	\$500	\$500	\$500	\$500
Encumbrances	0	0	0	0	0

This fund was created in 1994 to hold moneys from escheated state warrants and checks. Payees of state warrants and checks have one fiscal year after the fiscal year they were issued to cash the warrants and checks. The fund continues to hold money for payment of warrants and checks not cashed within that period and does not require any general fund appropriations. The fund also meets the definition of a trust fund. Payees of uncashed warrants and checks have a vested beneficial interest in the fund and have four years to claim the amount.

**Stadium Authority’s Account (Not in State Treasury),
Section 109-6, HRS**

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$86	\$86	\$189	\$91	\$122
Revenues	2,803	2,872	4,405	9,819	5,238
Interest	0	0	0	0	0
Expenditures	(2,803)	(2,769)	(4,503)	(9,788)	(5,190)
Transfers	0	0	0	0	0
Ending Fund Balance	\$86	\$189	\$91	\$122	\$170
Encumbrances	0	0	0	0	0

Established in 1978, this account holds all receipts collected by the Stadium Authority from the sale of admission tickets for events held at Aloha Stadium, including any money deposited with the Stadium Authority by a licensee to assure the payment of charges for the use of the stadium. Revenues were markedly higher during FY1996-97 due to a wave of concerts held at the stadium and a number of professional baseball games played there. Disbursements from the account are restricted to payments to stadium licensees in connection with the settlement of accounts, refund of deposits, and payments to the Stadium Special Fund for amounts due to the Stadium Authority. This account continues to meet its original purpose and does not require any general fund appropriations.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$1,217	\$1,085	\$945	\$1,388	\$1,170
Revenues	1,025	993	1,191	1,085	1,324
Interest	26	14	11	9	25
Expenditures	(1,191)	(1,147)	(764)	(1,089)	(1,005)
Transfers*	8	0	5	(223)	(13)
Ending Fund Balance	\$1,085	\$945	\$1,388	\$1,170	\$1,501
Encumbrances	0	0	0	0	(204)

* Transfers in include vacation leave credits for employees transferring from other programs and transfers out are to the general fund.

This fund was created in 1963 to finance the expenses of the State Motor Pool. The motor pool provides safe and economical transportation for state personnel in connection with official state business. Moneys in the fund are used to acquire, operate, maintain, repair, store, and dispose of state motor pool vehicles. The fund continues to provide state vehicle rental and maintenance services for various agencies. There is also a clear link between the benefits sought and the charges made upon users. State agencies requiring a motor pool car are required to pay a monthly or daily rental rate. Daily rates range from \$20 to \$30 and monthly rates range from \$220 to \$520. Rental fees are used to maintain the motor pool fleet. The fund does not require any general fund appropriations and is self-sustaining. The fund meets all four criteria of a revolving fund.

State Parking Revolving Fund, Section 107-11, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$507	\$1,345	\$1,015	\$1,564	\$1,924
Revenues	2,529	2,500	2,568	2,833	2,885
Interest	27	8	69	37	33
Expenditures	(2,335)	(2,708)	(2,608)	(2,565)	(2,331)
Transfers*	617	(130)	520	55	(126)
Ending Fund Balance	\$1,345	\$1,015	\$1,564	\$1,924	\$2,385
Encumbrances	0	0	0	0	(225)

* Funds transferred to and from various Public Works project accounts.

This fund was created in 1963 to account for the assessment and collection of parking fees paid by government officials and employees, and the installation of parking meters. Monthly parking rates range from \$10 for motorcycles to \$60 for covered assigned parking in Central Honolulu. Revenues and user taxes received from the issuance of state parking facility undertaking or loan program revenue bonds are also deposited in this fund. There is a clear link between the benefits sought and the charges made upon users. Moneys in the fund are used to operate, maintain, and construct parking facilities on state lands. The fund is self-sustaining and does not require any general fund appropriations. It must maintain a certain balance to meet debt service requirements. The fund continues to serve its original purpose and is an appropriate financing mechanism for the program.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$20,081	\$15,998	\$11,981	\$7,444	\$7,403
Revenues	21,751	6,705	6,788	6,488	4,105
Interest	229	402	196	181	224
Expenditures	(23,716)	(8,684)	(10,791)	(6,764)	(1,392)
Transfers*	(2,347)	(2,440)	(730)	54	482
Ending Fund Balance	\$15,998	\$11,981	\$7,444	\$7,403	\$10,822
Encumbrances	0	0	0	0	0

* Funds are transferred to the Public Works Division for the restoration of State facilities damaged or destroyed by fire and other casualties. Unexpended moneys are returned to the fund.

Created in 1988, the purpose of the fund is to collect appropriations made by the Legislature, receipts from assessments and apportionments made to state agencies based on benefits received by the agencies, insurance settlements, interest from investments, and restitution from claims. Moneys from the fund may be expended to purchase casualty insurance; purchase property insurance; purchase excess insurance; acquire risk management, investigative, claims adjustment, actuarial, and other services; pay claims to state agencies for losses to property of the State caused by fire or other casualty; pay claims against the State; and pay for losses to the State incurred by the dishonesty, nonfeasance, or misfeasance of any state employee. The fund continues to ensure that the losses of the State are controlled and financed on a statewide basis.

In 1994, we found that the fund did not operate as a revolving fund but rather as a rainy day fund to set aside general fund appropriations to pay for future losses. We found that the fund did not meet the criteria for a revolving fund but served a useful purpose as a reserve fund. The fund continues to rely on general fund appropriations to purchase statewide insurance policies and to pay for self-insured losses. The fund does not meet the criteria for a revolving fund.

Surplus Federal Property Revolving Fund, Section 103D-1107, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$60	\$78	\$130	\$130	\$175
Revenues	177	224	182	226	248
Interest	0	2	4	5	5
Expenditures	(159)	(174)	(186)	(186)	(203)
Transfers	0	0	0	0	0
Ending Fund Balance	\$78	\$130	\$130	\$175	\$225
Encumbrances	0	0	0	0	(3)

The purpose of this fund is to defray the costs of procuring, storing, handling, and disposing of surplus property donated to the State. The fund continues to serve this purpose and pays for payroll and operating expenses of the program. There is a clear link between the benefits sought and the charges made upon users. Service and handling fees are charged to those acquiring the property based on the acquisition cost or fair market value of the donated or transferred property. The fund is self-sustaining and is an appropriate financing mechanism for the program.

**Accounts
Established Under
Administrative
Authority**

Accrued Vacation/Sick Leave Account

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$1,313	\$895	\$440	\$94	\$100
Revenues	582	581	752	834	676
Interest	0	0	0	0	0
Expenditures	(1,000)	(1,036)	(998)	(828)	(765)
Transfers*	0	0	(100)	0	0
Ending Fund Balance	\$895	\$440	\$94	\$100	\$11
Encumbrances	0	0	0	0	0

* Transfer to the Supplies, Services, & Equipment for Capital Improvement Projects (CIP) trust account.

This account was created to defray vacation, sick leave, and related fringe benefits costs involved in carrying out construction projects managed by the department. The account helps to equitably distribute costs over all projects and to pool resources to efficiently manage these expenditures rather than charge only current projects when the benefits are used. The account continues to support employee benefits, and projects are assessed for accrued vacation and sick leave credits for non-general fund employees. This account, though labeled a revolving fund, acts more like a holding account to pay for vacation and sick leave taken by CIP funded employees.

Central Payroll Clearance

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$11	\$25	\$24	\$20	\$19
Revenues	1,777,493	1,842,826	1,777,329	1,778,920	1,849,738
Interest	0	0	0	0	0
Expenditures	(1,777,479)	(1,842,827)	(1,777,333)	(1,778,921)	(1,849,707)
Transfers	0	0	0	0	0
Ending Fund Balance	\$25	\$24	\$20	\$19	\$50
Encumbrances	0	0	0	0	0

This account is used as a clearing account to ensure that the State's payroll expenditures have been properly reimbursed from funds held outside the state treasury and that transfers from funds within the state treasury have been made. The account continues to clear semi-monthly payroll amounts and receives reimbursements for salary overpayments. The account does not require any general fund appropriations.

Employees Sequestered Funds

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$8	\$16	\$25	\$23	\$28
Revenues	73	89	71	70	92
Interest	0	0	0	0	0
Expenditures	(65)	(80)	(73)	(65)	(68)
Transfers	0	0	0	0	0
Ending Fund Balance	\$16	\$25	\$23	\$28	\$52
Encumbrances	0	0	0	0	0

This account was created to hold funds that are sequestered from the payrolls of state employees and continues to accumulate court-ordered garnishment amounts until disbursed to designated payees. The account does not require any general fund appropriations.

Hawaii FYI - ICSD

Financial Data for Fiscal Years 1996-1998 (in thousands)

	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$20	\$15
Revenues	20	0	0
Interest	0	0	0
Expenditures	0	(5)	0
Transfers	0	0	0
Ending Fund Balance	\$20	\$15	\$15
Encumbrances	0	0	0

This account was administratively established in 1996 to account for a Ford Foundation grant made to the Information Resource Management Branch of the Information and Communication Services Division (ICSD).

The general purpose of the grant is to expand and improve public access to government information via the Hawaii FYI Network. At least 80 percent of the grant must be used for dissemination and replication activities including public outreach and educational events. Only \$5,000 of the \$20,000 grant has been used to date. The program has planned to use the money for events, demonstrations, briefings, seminars, replication and development of information services provider sites, and staff recognition events. The account does not require any general fund appropriations and meets the criteria of a trust account.

Hawaii State Employees US Savings Bonds

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$445	\$437	\$428	\$401	\$378
Revenues	5,100	5,053	4,786	4,477	3,934
Interest	0	0	0	0	0
Expenditures	(5,108)	(5,062)	(4,813)	(4,500)	(4,126)
Transfers	0	0	0	0	0
Ending Fund Balance	\$437	\$428	\$401	\$378	\$186
Encumbrances	0	0	0	0	0

This account was created to accumulate state employees' deductions for U.S. Savings Bond purchases. Upon accumulation of the required bond cost, funds are transferred to the federal reserve which then issues bonds to employees. The fund continues to hold employees' deductions until the amounts withheld equal the purchase price of the bonds accumulated. The account does not require any general fund appropriations and meets the criteria of a trust account.

Motor Vehicle Rental & Personal Car Mileage for CIP Projects

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$50	\$96	\$84	\$40	\$17
Revenues	185	122	84	146	418
Interest	0	0	0	0	0
Expenditures	(139)	(134)	(128)	(169)	(164)
Transfers	0	0	0	0	0
Ending Fund Balance	\$96	\$84	\$40	\$17	\$271
Encumbrances	0	0	0	0	0

This account was created to reimburse Public Works Division employees who use their personal vehicles for work and to purchase, lease, and maintain vehicles. Each CIP project is assessed differing amounts of money which are deposited into this account. The account continues to serve this purpose. Although labeled a revolving fund, this account operates as a holding account to facilitate processing DAGS employees' mileage claims.

Payroll Clearance, Public Works

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	5,730	5,944	5,895	5,779	5,968
Interest	0	0	0	0	0
Expenditures	(5,730)	(5,944)	(5,895)	(5,779)	(5,968)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	0	0	0	0	0

This account was administratively established to facilitate processing of payroll on a timely basis for non-general funded CIP personnel. The account continues to be used as a clearing account to cover payroll costs that are reimbursed by CIP appropriations for staff costs, repairs and maintenance, and repairs and alterations. Reconciliation of payroll is performed monthly. This account does not require any general fund appropriations and meets the criteria of a trust account.

Special Deposits (Tenant Deposits)

Financial Data for Fiscal Year 1994 (in thousands)

	FY 1994
Beginning Fund Balance	\$2
Revenues	0
Interest	0
Expenditures	(2)
Transfers	0
Ending Fund Balance	\$0
Encumbrances	0

This account was administratively created to hold security deposits received from escrow companies utilizing a small room on the first floor in the Kalanimoku Building. Initially there were eight escrow companies who used the facility, and each company was required to submit a deposit. The deposit was returned upon certain conditions being met. During FY1993-94, the account was closed and the unclaimed funds were transferred to the Unclaimed Property Branch of the Department of Budget and Finance.

State Foundation on Culture and the Arts

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$41	\$22	\$16	\$16	\$31
Revenues	6	25	98	130	448
Interest	0	0	0	0	0
Expenditures	(25)	(31)	(98)	(115)	(463)
Transfers	0	0	0	0	0
Ending Fund Balance	\$22	\$16	\$16	\$31	\$16
Encumbrances	0	0	0	0	0

This account was administratively established in 1984 to account for all private donations made to the State Foundation on Culture and the Arts. The account continues to meet this purpose. Private donations are held in trust for nonprofit organizations and artists who are either specified as beneficiaries of the funds or who meet the purpose established by the donor. Current sources of revenue for the account include grants from The Fund for Folk Culture Conferences and Gatherings Program and capital gains from the Pacific Century Trust for the Honolulu Symphony Endowment Fund. Past donations have financed cultural education and support for museums and the arts. This account does not require any general fund appropriations and meets the criteria of a trust account.

Supplies, Services, & Equipment for CIP Projects

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$273	\$907	\$443	\$186	\$321
Revenues	2,169	708	911	961	1,254
Interest	0	0	0	0	0
Expenditures	(1,535)	(1,172)	(1,268)	(826)	(852)
Transfers*	0	0	100	0	0
Ending Fund Balance	\$907	\$443	\$186	\$321	\$723
Encumbrances	0	0	0	0	(3)

* Transfer from the Accrued Vacation/Sick Leave trust account.

This account was administratively established to defray costs of supplies, services, and equipment expended in the management of CIP projects. CIP and other projects are assessed their portion of expenses. The purpose of this account is to equitably collect and distribute costs for other current expenses associated with capital improvement repairs and maintenance, and repairs and alterations projects. This account does not require any general fund appropriations. Although labeled a revolving fund, it operates more like a holding account.

Temporary Deposits-Administrative Services Office

Financial Data for Fiscal Years 1996-1998 (in thousands)

	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$1	\$3
Revenues	2	5	2
Interest	0	0	0
Expenditures	(1)	(3)	(2)
Transfers	0	0	0
Ending Fund Balance	\$1	\$3	\$3
Encumbrances	0	0	0

This account was administratively established in 1996 to account for the deposits of salary overpayments collected from employees. The account continues to receive salary overpayment collections that are subsequently deposited into the general fund. This account serves as a collection and pass-through account and does not require any general fund appropriations.

Temporary Deposits - Automotive Management

Financial Data for Fiscal Years 1996-1998 (in thousands)

	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$716	\$8,956
Revenues	1,956	10,020	3,734
Interest	0	0	0
Expenditures	(1,240)	(1,780)	(2,840)
Transfers	0	0	0
Ending Fund Balance	\$716	\$8,956	\$9,850
Encumbrances	0	0	0

This account was administratively established in 1996 to hold gate card deposits received from temporary parking assignees in gate controlled parking lots. The account continues to receive deposits from employees assigned to gate controlled parking areas. Revenues were significantly higher during FY1996-97 due to deposits collected for the new State Capitol gate cards. The account does not require any general fund appropriations.

Temporary Deposits - Central Purchasing

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$459	\$410	\$174	\$31	\$19
Revenues	924	309	49	302	155
Interest	0	0	0	0	0
Expenditures	(973)	(545)	(192)	(314)	(60)
Transfers	0	0	0	0	0
Ending Fund Balance	\$410	\$174	\$31	\$19	\$114
Encumbrances	0	0	0	0	0

This account was administratively established to hold bidder deposits. Bid security protects the State against failure or refusal of the low bidder to supply the necessary performance and payment bonds as required and to proceed with the performance under the contract. The account continues to receive cash or checks from bidder deposits. The account does not require any general fund appropriations.

Temporary Deposits - ICSD

Financial Data for Fiscal Years 1997-1998 (in thousands)

	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$38
Revenues	38	0
Interest	0	0
Expenditures	0	0
Transfers	0	0
Ending Fund Balance	\$38	\$38
Encumbrances	0	0

This account was administratively established to hold funds from the Information Processing Services Office for receipt of performance bonds by various contractors and funds from the Communications Section for receipt of microwave tower lease payments from the Federal Bureau of Investigations for its use of microwave tower site communications. The account has been inactive over the past year. The account does not require any general fund appropriations.

Temporary Deposits - Public Works

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$54	\$54	\$55	\$53	\$53
Revenues	0	1	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(2)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$54	\$55	\$53	\$53	\$53
Encumbrances	0	0	0	0	0

This account was administratively established to account for temporary security deposits made by individuals borrowing plans and specifications for bidding purposes. Individuals can also make permanent deposits instead of submitting deposits for each review. The account continues to hold collections from users of plans and specifications. It does not require any general fund appropriations and is primarily used as a holding account.

Temporary Deposits - Stadium Authority

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$57	\$36	\$34	\$55
Revenues	86	99	102	98	99
Interest	0	0	0	0	0
Expenditures	(29)	(120)	(104)	(77)	(97)
Transfers	0	0	0	0	0
Ending Fund Balance	\$57	\$36	\$34	\$55	\$57
Encumbrances	0	0	0	0	0

This account was administratively established in 1994 to temporarily hold scoreboard advertising receipts that are distributed to other accounts. The account continues to hold receipts from scoreboard advertising—30 percent of which are distributed to the University of Hawaii and the balance deposited to the Stadium Special Fund. The account does not require any general fund appropriations and meets the criteria of a trust account.

Chapter 3

Department of Agriculture

This chapter presents the results of our review of 8 revolving funds, 1 trust fund, and 14 trust accounts used by the Department of Agriculture. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first those funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Agricultural Loan Revolving Fund, Section 155-14, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$4,007	\$7,193	\$10,313	\$10,622	\$7,170
Revenues	5,715	6,258	4,127	2,428	3,676
Interest	0	0	0	0	0
Expenditures	(2,551)	(4,338)	(818)	(2,180)	(1,440)
Transfers*	22	1,200	(3,000)	(3,700)	0
Ending Fund Balance	\$7,193	\$10,313	\$10,622	\$7,170	\$9,406
Encumbrances	0	0	0	0	0

* Transfer for FY1994 was from the Hawaii Agricultural Products Revolving Fund for an expenditure error.

Transfer for FY1995 was from the Financial Assistance for Agriculture Fund (\$1,500,000) of excess funds and to the Aquaculture Loan Revolving Fund (\$300,000) to grant loans.

Transfer for FY1996 was to the general fund for Hamakua Final Harvest profits.

Transfer for FY1997 was to the general fund per Act 213, SLH 1996.

This fund was created in 1919 to promote agricultural development by granting loans and securing credit for qualified applicants. The department encourages the growth, development, and well-being of agriculture by encouraging development of new farmers and crops, assisting qualified farmers with loans, encouraging private lenders to make loans to qualified farmers, and providing emergency relief to farmers. The department makes the following classes of loans from the fund: (1) farm ownership and improvement loans, (2) soil and water conservation loans, (3) farm operating loans, (4) emergency loans, and (5)

loans to cooperatives and corporations to provide credit to farmers' cooperative associations and corporations engaged in marketing, purchasing, and processing. Agricultural loans made by the department are authorized only if the loans cannot be made by two private lenders, a farm credit system bank, or the U.S. Department of Agriculture.

The fund continues to serve the purpose for which it was originally created. Since FY1993-94, 82 loans were made from the fund totaling \$8 million. Loans included a qualified farmer loan for a Kona business to modernize its operations and emergency loans for farmers on Oahu, Maui, and Hawaii for heavy rain and drought damage. There is also a clear link between the benefit sought and the charges made upon the beneficiaries. Qualified farmers who obtain direct loans from the program or secure loans through the fund replenish the fund through payments of the principal portion of loans. Interest paid on loans is deposited to the Agricultural Loan Reserve Fund. The fund is self-sustaining and does not require any general fund appropriations. During FY1996-97, the Legislature found that the fund had \$3.7 million in excess and transferred that amount to the general fund. The fund is an appropriate financing mechanism for the program and meets the criteria of a revolving fund.

Aquaculture Loan Revolving Fund, Section 219-4, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$501	\$338	\$708	\$715	\$520
Revenues	98	58	90	151	29
Interest	0	0	0	0	0
Expenditures	(261)	(30)	(83)	(47)	0
Transfers*	0	342	0	(299)	0
Ending Fund Balance	\$338	\$708	\$715	\$520	\$549
Encumbrances	0	0	0	0	0

* Transfers for FY1995 were from the Agricultural Loan Revolving Fund (\$300,000) to grant loans and excess funds from the Hawaii Aquaculture Loan Reserve Fund (\$42,000).

Transfers for FY1997 were to the Aquaculture Loan Revolving Fund Excess Cash (\$400,000) per Act 213, SLH 1996 and excess funds from the Hawaii Aquaculture Loan Reserve Fund (\$101,000).

This fund was created in 1972 for the purpose of supporting the development of the aquaculture industry by granting loans and securing credit for qualified aquaculturalists. The department may make loans for aquacultural products development, secure loans by duly recorded first

mortgages, insure loans made to qualified aquaculturalists by private lenders, and make direct loans to qualified aquaculturalists. Loans may include aquaculture farm ownership and improvement loans, aquaculture operating loans, aquaculture cooperative and corporation loans, and emergency loans to provide relief and rehabilitation. The fund continues to serve its original purpose. Since FY1993-94, two loans were approved for \$130,000. There is also a clear link between the benefits and charges made upon users. Qualified aquaculturalists who receive loans from the fund replenish the fund through payments on the principal portion of their loans. Interest is deposited to the Aquaculture Loan Reserve Fund. The fund does not require any general fund appropriations and is an appropriate financing mechanism for the program.

Coffee Inspection Revolving Fund, Section 147-7.5, HRS

Financial Data for Fiscal Years 1996-1998 (in thousands)

	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$4	\$13
Revenues	9	22	58
Interest	0	0	0
Expenditures	(5)	(13)	(35)
Transfers	0	0	0
Ending Fund Balance	\$4	\$13	\$36
Encumbrances	0	0	(2)

Recent laws require that all green coffee produced in Hawaii be inspected and certified for grade and origin. Due to the short coffee season and the large volume of coffee produced during the season, there are insufficient full-time employees to inspect the coffee crop as required. Therefore, the Coffee Inspection Revolving Fund was created during the 1995 special session to provide inspection services for a fee to ascertain and certify the grade, classification, quality, or condition of fresh or processed coffee during the coffee season. Moneys in the fund may be used for materials, salaries, equipment, training, and other costs related to providing inspections. The fund is currently being used to hire temporary, non-civil service employees to conduct the inspections. Fees are assessed to producers and millers of green coffee for inspection services and are used to cover the costs of providing services. Although the fund required a \$10,000 general fund appropriation during FY1997-98 to cover training costs of new hires, this amount will be reimbursed by the revolving fund to the general fund from revenue generated by the program. The program demonstrates the capacity to become self-sufficient.

Hamakua Sugar Loan Guaranty Trust Fund, Act 85, SLH 1993

Financial Data for Fiscal Years 1994-1995 (in thousands)

	FY 1994	FY 1995
Beginning Fund Balance	\$800	\$800
Revenues	0	0
Interest	0	0
Expenditures	0	(800)
Transfers	0	0
Ending Fund Balance	\$800	\$0
Encumbrances	0	0

Act 85, SLH 1993 created the Hamakua Sugar Loan Guaranty Trust Fund to deposit reserve money for loans guaranteed under the Act. In order to continue operations of the now-defunct Hamakua Sugar Company, a loan from a private lending institution could be secured only with a guaranty from the State. An \$800,000 appropriation from the general fund was made during FY1992-93 for the trust fund. The fund served as a reserve of 10 percent of loans guaranteed and was closed during FY1994-95.

Hawaii Agricultural Development Revolving Fund, Section 163D-17, HRS

Financial Data for Fiscal Years 1995-1998 (in thousands)

	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$203	\$284	\$192
Revenues	245	214	12	158
Interest	0	0	0	0
Expenditures	(42)	(133)	(104)	(185)
Transfers	0	0	0	0
Ending Fund Balance	\$203	\$284	\$192	\$165
Encumbrances	0	(1)	(2)	(8)

Created in 1995, this fund accounts for revenues and expenditures related to the administration and operation of the Agribusiness Development Corporation and is used to carry out the purposes of Section 163D-17, HRS. Pursuant to Section 163D-17, the revolving fund may be used to purchase qualified securities; make grants, loans, and provide other monetary forms of assistance; and to pay for the general expenses and

carry out the purpose of the corporation. The fund continues to serve this purpose and has supported the following corporation activities: assisting in the identification of a site and acquisition of land to construct an incinerator; conducting a statewide survey to determine what is happening to former plantation workers; and conducting an investigation of the feasibility of expanding Hawaii exports of fresh produce to Guam and Saipan. However, there is no link between the benefit sought and charges made upon beneficiaries. The beneficiaries of this fund include those involved in agricultural enterprises; however, these groups are not being charged for the services they receive from the corporation. In addition, the fund is not self-sustaining. The source of revenues from FY1993-94 to FY1997-98 has been general fund appropriations. Although the corporation is supposed to eventually be a self-supporting organization, it has not received any revenue from its projects and programs. This fund is not an appropriate financing mechanism for the corporation and does not meet the criteria of a revolving fund.

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

Financial Data for Fiscal Years 1994-1995 (in thousands)

	FY 1994	FY 1995
Beginning Fund Balance	\$248	\$242
Revenues	16	0
Interest	0	0
Expenditures	0	(242)
Transfers*	(22)	0
Ending Fund Balance	\$242	\$0
Encumbrances	0	0

* Transfer was to the Agricultural Loan Revolving Fund for an error in expenditure from the wrong account.

This fund was created in 1964 to stimulate new agricultural crops, stimulate agricultural product activities, encourage practical research in crop diversification, and encourage innovations in crop development. Moneys from the fund may be used to make grants or allowances to qualified agriculturalists. No loans were made during the period under review. This fund was closed during FY1994-95 due to the repeal of Chapter 153, HRS, by Act 264, SLH 1994. Payments of outstanding loans are deposited in the Agricultural Loan Revolving Fund.

Irrigation System Revolving Fund, Section 167-22, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$914	\$694	\$503	\$415	\$292
Revenues	476	641	542	610	544
Interest	0	0	0	0	0
Expenditures	(696)	(632)	(630)	(801)	(628)
Transfers*	0	(200)	0	68	0
Ending Fund Balance	\$694	\$503	\$415	\$292	\$208
Encumbrances	(41)	(52)	(87)	(33)	(51)

* Transfer for FY1995 was to the Implementation of Biological and Hydrologic Monitoring Program-Molokai Irrigation System account to implement Act 159, SLH 1994.

Transfer for FY1997 was of unrequired balances from CIP appropriation accounts for plans and design of the Access Road Relocation of Molokai Irrigation System project.

The Irrigation System Revolving Fund was created in 1953 to pay for administrative costs, engineering surveys, economic studies, plans, and maps directly attributable to water projects. The fund continues to serve this purpose and is being used to service irrigation water for agricultural use and to establish, operate, manage, and maintain irrigation systems. Water customers within the designated irrigation project boundaries benefit through the program's maintenance of irrigation systems. In turn, the customers replenish the fund through water sales, payment of acreage assessments, and connection fees. A revolving fund is an appropriate financing mechanism for the irrigation systems program. Although the fund is currently not self-sustaining and requires general fund appropriations to supplement operations, it is in the process of increasing water users fees to become self-sufficient.

Marketing Order Revolving Fund, Section 147-101, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$282	\$280	\$223	\$141	\$0
Revenues	300	33	0	0	0
Interest	0	0	0	0	0
Expenditures	(302)	(90)	(82)	(141)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$280	\$223	\$141	\$0	\$0
Encumbrances	(19)	0	0	0	0

This fund was established in 1972 to provide inspection services for federal marketing order programs. Prior to FY1993-94, statutory authority for this fund was given under Section 163-31, HRS. However, Act 264, SLH 1994, repealed Chapter 163. Moneys in the fund are to be expended for materials, salaries, equipment, training, and other costs related to providing inspection services. The fund is financially self-sufficient and is supported and replenished by hourly charges billed to producers or handlers covered by federal marketing orders. Papaya is the only commodity under a marketing order in Hawaii; however, papaya currently does not have inspection requirements. Therefore, the fund was inactive during FY1997-98. Papaya industry representatives have indicated that they will reinstate grade and size requirements some time after July 1999. Although the fund has been inactive over the past year, it is an appropriate financing mechanism for the program and meets the criteria of a revolving fund.

Pesticide Use Revolving Fund, Section 149A-13.5, HRS

Financial Data for Fiscal Years 1997-1998 (in thousands)

	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$174
Revenues	250	181
Interest	0	0
Expenditures	(76)	(93)
Transfers	0	0
Ending Fund Balance	\$174	\$262
Encumbrances	(107)	(98)

This fund was created in 1997 to support the pesticide program's registration and licensing, certification and education, and compliance monitoring activities. The fund may also be used to establish pesticide training workshops, educational programs, and other services for pesticide users. Moneys in the fund have been used to print a pesticide newsletter; hire a speaker for the Hawaii Pest Control Association Convention; and purchase contracts, equipment, supplies, and travel to support groundwater protection activities. There is a clear link between the benefits sought and the charges made upon users of the program. Pesticide registrants and pesticide applicators, including farmers and pest control operators, benefit through the training workshops and educational programs. In turn, they replenish the fund by paying pesticide licensing and educational fees. The fund is self-sustaining and is an appropriate financing mechanism for the program.

**Accounts
Established Under
Administrative
Authority**

Agriculture Loan Revolving Fund Excess Cash

**Financial Data for Fiscal Year 1997 (in thousands)
FY 1997**

Beginning Fund Balance	\$0
Revenues	0
Interest	0
Expenditures	(3,700)
Transfers*	3,700
Ending Fund Balance	\$0
Encumbrances	0

* Transfer from the Agricultural Loan Revolving Fund.

This account was administratively and temporarily established during FY1996-97 to serve as a pass-through account to transfer excess funds from the Agricultural Loan Revolving Fund to the general fund pursuant to Act 213, SLH 1996. Although identified as a revolving fund by the department, this account served as a clearing account for excess funds identified by the Legislature.

Aquaculture Loan Revolving Fund Excess Cash

**Financial Data for Fiscal Year 1997 (in thousands)
FY 1997**

Beginning Fund Balance	\$0
Revenues	0
Interest	0
Expenditures	(400)
Transfers*	400
Ending Fund Balance	\$0
Encumbrances	0

* Transfer from the Aquaculture Loan Revolving Fund.

This account was administratively and temporarily established during FY1996-97 to serve as a pass-through account to transfer excess funds from the Aquaculture Loan Revolving Fund to the general fund pursuant to Act 213, SLH 1996. Although identified as a revolving fund by the department, this account served as a clearing account for excess funds identified by the Legislature.

Contribution of Overtime Plant Quarantine Inspection

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$25	\$0	\$28	\$38	\$37
Revenues	217	264	302	312	318
Interest	0	0	0	0	0
Expenditures	(242)	(236)	(292)	(313)	(313)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$28	\$38	\$37	\$42
Encumbrances	0	0	0	0	(9)

This account was administratively established to serve as a holding account for fees paid by shipping companies for inspections conducted on an overtime basis for cargo entering the state at sites other than docks and piers. The account currently supports off-site inspection of containers as requested by Matson and Sealand using off-duty inspectors. The account requires no general fund appropriations and meets the criteria of a trust account.

Hamakua Harvest Payments

Financial Data for Fiscal Years 1994-1996 (in thousands)

	FY 1994	FY 1995	FY 1996
Beginning Fund Balance	\$0	\$1,768	\$207
Revenues	1,768	1,811	0
Interest	0	0	0
Expenditures	0	(3,372)	(207)
Transfers	0	0	0
Ending Fund Balance	\$1,768	\$207	\$0
Encumbrances	0	0	0

This account was established in 1994 and ceased activity during FY1995-96. The purpose of the account was to serve as a holding account of moneys to be paid by the trustee of Hamakua Sugar Company as a provision for the final harvest as specified in bankruptcy proceedings. The account did not require any general fund appropriations and served as a reserve if the final harvest resulted in a loss.

Implementation of Biological & Hydrologic Monitoring Program, Molokai Irrigation System

Financial Data for Fiscal Years 1995-1998 (in thousands)

	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$200	\$153	\$100
Revenues	0	0	0	0
Interest	0	0	0	0
Expenditures	0	(47)	(53)	(50)
Transfers*	200	0	0	0
Ending Fund Balance	\$200	\$153	\$100	\$50
Encumbrances	0	(153)	(100)	(50)

* Transfer from the Irrigation System Revolving Fund to implement Act 159, SLH 1994.

Act 159, SLH 1994 created this fund for the purpose of implementing a biological and hydrologic monitoring program for the Molokai irrigation system. The purposes of the program are to document the existing operating procedures of the Molokai irrigation system, identify the impacts of all operating alternatives on Waikolu stream, evaluate the effectiveness of diversion weir modifications, and test the effects of the pumping of three new wells on the stream ecosystem. The account does not require general fund appropriations and received a one-time cash infusion from the Irrigation System Revolving Fund.

Loan Repayments Collected for County of Hawaii

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$5	\$56	\$0	\$0
Revenues	35	129	62	0	1
Interest	0	0	0	0	0
Expenditures	(30)	(78)	(118)	0	(1)
Transfers	0	0	0	0	0
Ending Fund Balance	\$5	\$56	\$0	\$0	\$0
Encumbrances	0	0	0	0	0

This account was established to serve as a holding account for the County of Hawaii's share of Kohala Task Force loan repayments. In 1972, the Legislature found that a serious economic situation threatened the north Kohala area and appropriated \$3.7 million in general obligation bonds to finance the planning and development of the area. Companies received loans from the department to develop new industries in the north Kohala area. When the task force was abolished, the department became responsible for collecting loan repayments. The account continues to serve as a holding account and does not require any general fund appropriations.

Noxious Weed Control

Financial Data for Fiscal Year 1998 (in thousands)

	FY 1998
Beginning Fund Balance	\$0
Revenues	24
Interest	0
Expenditures	(13)
Transfers	0
Ending Fund Balance	\$11
Encumbrances	0

This account was administratively established in 1997 to account for funds provided by the Territory of French Polynesia under a cooperative agreement with the department to conduct host range studies on plant pathogens collected from Central and South America. The funds are being used to cover airfare, per diem, and associated expenses for the department's exploratory entomologist to conduct surveys in South America. The account is being used as a holding account for moneys received from the Territory of French Polynesia and does not require any general fund appropriations.

Producers Settlement Fund

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$1	\$3	\$0	\$23	\$6
Revenues	24	6	23	9	127
Interest	0	0	0	0	0
Expenditures	(22)	(9)	0	(26)	(133)
Transfers	0	0	0	0	0
Ending Fund Balance	\$3	\$0	\$23	\$6	\$0
Encumbrances	0	0	0	0	0

This account was established as a holding account to equalize the prices paid by milk processors and received by milk producers. The Milk Control Program assures that there is an adequate supply of milk for the state. Milk is pooled on a market-wide basis to assure that all producers are treated fairly; quotas are established for milk production to assure that an adequate production is available; and the minimum price paid to milk producers is established to assure a fair return. This account continues to hold payments received from dairy processors and to make distribution and adjustment payments to milk producers.

Temporary Deposit, Bond for Animal

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$54	\$41	\$27	\$22	\$25
Revenues	21	4	8	15	5
Interest	0	0	0	0	0
Expenditures	(34)	(18)	(13)	(12)	(20)
Transfers	0	0	0	0	0
Ending Fund Balance	\$41	\$27	\$22	\$25	\$10
Encumbrances	0	0	0	0	0

This account was administratively established to hold cash bonds that are required for people to obtain an import permit for primates and other specified animals entering Hawaii. This account was previously called the Temporary Deposit-Monkey Bond account. If the bonded animal escapes or is let loose, the bond is forfeited, and the money is deposited into the general fund. If the animal dies, the owner sells the animal, or takes the animal out of state, the bond money is returned. The account continues to serve as a holding account for cash bonds.

Temporary Deposit, Commodities

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$38	\$3	\$1	\$1	\$2
Revenues	37	27	27	29	33
Interest	0	0	0	0	0
Expenditures	(72)	(29)	(27)	(28)	(33)
Transfers	0	0	0	0	0
Ending Fund Balance	\$3	\$1	\$1	\$2	\$2
Encumbrances	0	0	0	0	0

This account was established administratively as a temporary clearing account for federal certification activities. It was previously called the the Temporary Deposit-Marketing account. Under a cooperative agreement with the U.S. Department of Agriculture, the account supports voluntary fee-for-service inspection and certification of a variety of processed foods, shell eggs, and fresh fruits and vegetables. The account requires no general fund appropriations. All revenues are derived from fee-for-service charges to the users of the service.

Temporary Deposit, Meat Grading

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$59	\$38	\$15	\$11	\$6
Revenues	17	10	9	11	11
Interest	0	0	0	0	0
Expenditures	(38)	(33)	(13)	(16)	(16)
Transfers	0	0	0	0	0
Ending Fund Balance	\$38	\$15	\$11	\$6	\$1
Encumbrances	(28)	(6)	(10)	(3)	0

This account was established administratively to account for fees charged to beef slaughterhouses for USDA grading services. Under a cooperative agreement with the State, a federal meat grader is stationed in Hawaii to provide meat grading services. Upon request, the federal meat grader will certify the grade of meat at the slaughterhouses to ensure that the product meets a federal grade standard and quality. Fees charged to Hawaii's beef slaughterhouses for grading services do not cover the billing from the USDA for services rendered by its meat

grader. General funds are budgeted to cover the remaining expenses for federal meat grading services. This account does not meet the criteria of a trust account.

Temporary Deposits

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$4	\$15	\$18
Revenues	0	12	18	7	0
Interest	0	0	0	0	0
Expenditures	0	(8)	(7)	(4)	(16)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$4	\$15	\$18	\$2
Encumbrances	0	0	(2)	0	0

This account was administratively established in 1993 to serve as a clearing account for temporarily deposited funds received by the department. Temporary deposits made to the account include payroll and salary overpayments collected from the various programs and deposits collected from the now-defunct Market Development Tradeshows trust account. This account does not require any general fund appropriations.

Temporary Deposits for Agriculture Parks

Financial Data for Fiscal Year 1994 (in thousands)

	FY 1994
Beginning Fund Balance	\$59
Revenues	21
Interest	0
Expenditures	(80)
Transfers	0
Ending Fund Balance	\$0
Encumbrances	0

This account was administratively established in 1988 to hold deposits received from agricultural lessees. The agricultural park program awards leases to qualified farmers. Upon lease award, the lessee is required to comply with lease terms and certain conditions such as payment of fees, taxes, and related costs. Our previous report found that this account had

not been used since 1989 and no longer served the purpose for which it was created. The department reports that this account is no longer being utilized.

Temporary Deposits, Market Development Tradeshow

Financial Data for Fiscal Years 1994-1995 (in thousands)

	FY 1994	FY 1995
Beginning Fund Balance	\$1	\$1
Revenues	0	0
Interest	0	0
Expenditures	0	(1)
Transfers	0	0
Ending Fund Balance	\$1	\$0
Encumbrances	0	0

This account was administratively established as a holding account to temporarily deposit moneys received from interested participants in market development trade shows. Deposits were returned to participants upon fulfillment of certain conditions and forfeitures were deposited to the general fund. The account has not been used in recent years and is no longer required.

Chapter 4

Department of Budget and Finance

This chapter presents the results of our review of 7 revolving funds, 4 trust funds, and 6 trust accounts used by the Department of Budget and Finance. However, as of July 1, 1998, the following funds were transferred to the Department of Business, Economic Development and Tourism: (1) Dwelling Unit Revolving Fund, (2) Fee Simple Residential Revolving Fund, (3) Hawaii Development Revolving Fund, (4) Homes Revolving Fund, (5) Housing Alteration Revolving Loan Fund, (6) Housing Finance Revolving Fund, (7) Rental Assistance Revolving Fund, and (8) Rental Housing Trust Fund. Act 350, SLH 1997, consolidated all state housing functions under the Hawaii Housing Authority, Housing Finance and Development Corporation, and Rental Housing Trust Fund into a single Housing and Community Development Corporation of Hawaii. Act 350 established and for administrative purposes placed the Housing and Community Development Corporation of Hawaii within the Department of Business, Economic Development and Tourism.

For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first those funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Compound Interest Bond Reserve Fund, Section 39-151, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$21,670	\$21,764	\$15,763	\$15,575	\$14,279
Revenues	5,000	5,000	5,000	5,000	5,000
Interest	699	1,144	1,282	684	762
Expenditures	(5,605)	(12,145)	(6,470)	(6,980)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$21,764	\$15,763	\$15,575	\$14,279	\$20,041
Encumbrances	0	0	0	0	0

This fund was created in 1990 to pay for the principal and interest on compound interest bonds. Moneys in the fund are invested to assure the availability to the State of sufficient moneys to make payments of principal and interest on bonds. Section 39-151, HRS, allows the director of the Department of Budget and Finance to transfer a portion of general excise tax revenues up to but not in excess of \$5 million each fiscal year. The fund continues to meet its original purpose by holding moneys set aside to pay debt service for compound interest bonds and to help level debt service requirements.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$55,250	\$37,917	\$37,345	\$49,049	\$77,791
Revenues	63,224	104,787	97,634	44,642	19,147
Interest	2,174	2,962	3,394	4,436	4,274
Expenditures	(78,518)	(103,902)	(72,991)	(16,306)	(12,918)
Transfers*	(4,213)	(4,419)	(16,333)	(4,030)	(3,723)
Ending Fund Balance	\$37,917	\$37,345	\$49,049	\$77,791	\$84,571
Encumbrances	0	0	0	0	0

* Transfers are made to the Private Housing Development & Ownership Fund and the Housing Finance & Development Administration Fund for administrative expenses.

\$12 million was transferred to the general fund in FY1996.

The Dwelling Unit Revolving Fund was created to pay for administrative expenses, expand community facilities constructed in conjunction with housing projects, supplement building costs, pay for federal guarantees required for operational losses, and pay for all things required by any federal agency in the construction and receipt of federal funds for housing projects. The fund continues to serve the purpose for which it was created. It has recently been used for interim construction financing of affordable housing projects. There is also a clear link between the benefits sought and charges made upon users. The fund is replenished through payment of rent and the sale of dwelling units or land. The fund is self-sustaining and does not require any general fund appropriations. On July 1, 1995, \$12 million in retained earnings from the fund was transferred to the general fund. This fund is an appropriate financing mechanism and meets all the criteria of a revolving fund.

Employees' Retirement System of the State of Hawaii, Section 88-22, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$4,981,404	\$5,411,636	\$5,599,698	\$6,657,623*	\$7,888,168
Revenues	636,386	464,006	788,326	1,509,055	1,479,499
Interest	150,309	159,176	160,566	183,746	199,121
Expenditures	(356,463)	(435,120)	(485,292)	(462,256)	(515,006)
Transfers	0	0	0	0	0
Ending Fund Balance	\$5,411,636	\$5,599,698	\$6,063,298	\$7,888,168	\$9,051,782
Encumbrances	0	0	0	0	0

* The beginning fund balance for FY1997 has been restated by an increase of \$594,325,000 to reflect the change in reporting investments from a cost basis to fair value as required by the Governmental Accounting Standards Board Statement No. 25.

** FY1998 revenue and expenditures reflect securities lending revenue and expenses in accordance with Governmental Accounting Standards Board Statement No. 28.

The Employees' Retirement System was established in 1925 to provide retirement, disability, and survivor benefits for state employees, teachers, professors, county employees, police officers, firefighters, judges, and elected officials. The system continues to administer a retirement, disability, and survivor benefits program for the members and their designated beneficiaries. In addition, the system collects retirement contributions from contributory members, provides preretirement counseling services, conducts disability hearings and appeals, reviews claims for benefits, and invests funds to help finance the program. The system is funded through appropriations from the State and counties representing employer contributions, employee contributions, and income from investments. This fund meets the definition and criteria of a trust fund.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$1,278	\$1,223	\$1,027	\$1,186	\$1,072
Revenues	215	162	307	109	84
Interest	39	51	57	51	55
Expenditures	(37)	(44)	(1)	0	(72)
Transfers*	(272)	(365)	(204)	(274)	(187)
Ending Fund Balance	\$1,223	\$1,027	\$1,186	\$1,072	\$952
Encumbrances	0	0	0	0	0

* Transfers made to the Broadened Homesite Ownership Fund and the Housing Finance & Development Administration Fund for administrative expenses.

This fund was established to account for the revenues, receipts, and expenditures of the State's land reform program. The program fosters the conversion of residential leasehold land to fee simple. Moneys paid for administrative and tract costs by lessees participating in the program are deposited in the fund. The fund continues to support the land reform program for tracts of land pending trial or in litigation and tracts pending closing.

The fund also accounts for arbitration receipts and expenditures for the lease rent renegotiation program. This program facilitates the renegotiation of lease rents of land underlying single family dwellings and cooperative housing corporations. Receipts are for reimbursement of actual arbitration services performed by designated arbitrators. The fund supports the lease rent renegotiation program for single family residential tracts.

There is a clear link between the benefits sought and charges made upon users. Individuals seeking to convert their tracts from leasehold to fee simple benefit from the land reform program and replenish the fund through lease reimbursements and refunds. Individuals participating in the lease rent renegotiation program replenish the fund through payment of arbitration services. The fund is self sustaining and is an appropriate financing mechanism for the programs.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$500	\$253	\$349	\$369	\$382
Revenues	94	111	6	0	0
Interest	10	10	18	17	19
Expenditures	(101)	(25)	(4)	(4)	(38)
Transfers*	(250)	0	0	0	0
Ending Fund Balance	\$253	\$349	\$369	\$382	\$363
Encumbrances	0	0	0	0	0

* Transfer to the general fund.

This fund was created to make loans or grants to cover planning, engineering, feasibility studies, and other initial costs to provide low or moderate cost housing through government assistance programs. Loan or grant agreements may be entered with other public organizations or private nonprofit organizations. During FY1997-98, the fund was used to provide low or moderate cost housing at Manana Gardens. There is also a clear link between the benefits sought and charges made upon users. Organizations receiving loans or grants replenish the fund through interim loan interest and interim loan repayment. The fund is self-sustaining and has not required any general fund appropriations. During FY1993-94, \$250,000 from the fund was transferred to the general fund. A revolving fund is an appropriate financing mechanism for this program.

Hawaii Public Employees Health Fund, Section 87-2, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance**	\$26,836	\$46,763	\$51,819	\$64,878	\$54,272
Revenues	19,172	14,910	10,498	4,780	13,416
Interest	755	2,488	3,031	2,542	1,941
Expenditures	0	0	(233)	(210)	(128)
Transfers*	0	(12,342)	(237)	(17,718)	(26,179)
Ending Fund Balance**	\$46,763	\$51,819	\$64,878	\$54,272	\$43,322
Encumbrances	0	0	0	0	0

* Transfers are to state and county public employers for retiree reserves.

** Fund balances reflect expendable trust funds transactions and do not reflect agency funds transactions.

The Hawaii Public Employees Health Fund provides employee beneficiaries, dependent beneficiaries, and reciprocal beneficiaries with health and life insurance benefits. The fund may also be used to stabilize health benefits plan rates or long-term care benefits plan rates, provide group life insurance benefits to employees, provide long-term care insurance benefits to eligible participants, and assist the State and counties to implement and administer cafeteria plans. Although authorized by the 1989 Legislature, a long-term care insurance plan has not been implemented yet. The fund continues to collect state and county governments' share of health insurance premiums, and refunds of experience gains and interest earned on reserve moneys from health and life insurance carriers. The fund continues to provide health benefits plans for active employees, retirees, dependents, reciprocal beneficiaries, and surviving spouses and children under the age of 19 of deceased retirees or employees killed in the performance of their duties. Although the program receives general fund moneys to support payroll, operating, and administrative expenses, the fund does not require any general fund appropriations. Revenues are primarily derived from refunds of experience gains and interest earned on money from health and life insurance carriers.

Homes Revolving Fund, Section 201E-207, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$58,169	\$57,915	\$78,477	\$52,379	\$52,420
Revenues	58,101	66,480	64,082	596	392
Interest	1,645	3,117	2,806	3,525	1,903
Expenditures	(60,000)	(49,035)	(28,986)	(4,080)	(1,783)
Transfers*	0	0	(64,000)	0	(6,000)
Ending Fund Balance	\$57,915	\$78,477	\$52,379	\$52,420	\$46,932
Encumbrances	0	0	0	0	0

* Transfers made to the general fund.

This fund was established to develop and implement affordable housing programs, including the development of infrastructure, development of off-site and on-site improvements required for development; to provide short-term or interim construction loans; to develop and construct housing; and to advance equity capital for the rental housing system. The fund continues to meet its original purpose. The fund has been used for planning, designing, and constructing major on-site and off-site improvements required for the development of three master planned communities. It has also been used to develop and construct housing.

There is a clear link between the benefits sought and charges made upon users. Those receiving loans from the fund replenish it through reimbursement of prepaid fees. The fund is also financially self-sustaining. In FY1995-96 and FY1997-98, \$64 million and \$6 million from the fund were transferred to the general fund. The fund meets the criteria of a revolving fund and is an appropriate financing mechanism for the program.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$223	\$226	\$232	\$236	\$243
Revenues	0	0	0	0	0
Interest	6	10	10	12	13
Expenditures	(3)	0	(2)	(5)	(5)
Transfers*	0	(4)	(4)	0	0
Ending Fund Balance	\$226	\$232	\$236	\$243	\$251
Encumbrances	0	0	0	0	0

* Transfers made to the Housing Finance Revolving Fund and the Housing Finance and Development Administration Fund for administrative expenses.

This fund was statutorily established to provide low interest loans to eligible persons with disabilities or to their caregivers to make design alterations, such as modifications to kitchens, baths, doorways, doors, cabinets, windows, and drawers. The maximum loan is set at \$25,000 per residence occupied by one or more eligible persons. Although this program was made available in May 1992, no loans have been made. However, once loans are made to eligible persons, there will be a clear link between the benefits sought and the charges made upon users. Those receiving loans will replenish the fund through payment of principal and interest on the loans. The fund is an appropriate financing mechanism for the program.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$5,338	\$6,103	\$6,909	\$6,902	\$7,405
Revenues	1,696	1,613	1,718	1,657	1,796
Interest	389	498	569	521	590
Expenditures	(110)	(183)	(809)	(333)	(176)
Transfers*	(1,210)	(1,122)	(1,485)	(1,342)	(1,471)
Ending Fund Balance	\$6,103	\$6,909	\$6,902	\$7,405	\$8,144
Encumbrances	0	0	0	0	0

* Transfers are made to the Housing Finance Program Fund and the Housing Finance & Development Administration Fund for administrative expenses.

This fund was statutorily established to pay for long-term financing, other special financing, and the administrative expenses of the Housing and Community Development Corporation of Hawaii. The fund is currently being used to finance the Mortgage Credit Certificate Program, Loan Program for Kalapana Disaster Victims, Kahana Valley Loan Program, and Low-Income Housing Tax Credit Program. There is a clear link between the benefits sought and charges made upon beneficiaries. Those who receive loans from the fund replenish it through payment of loans, interest, application fees, processing fees, and compliance fees. The fund is self-sustaining and is an appropriate financing mechanism for the program.

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

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance (including investments)	\$47,022	\$47,915	\$48,510	\$40,723	\$36,014
Revenues	0	148	4,860	10,935	66
Interest	2,994	3,350	3,587	4,149	2,625
Expenditures	(2,080)	(2,838)	(16,148)	(2,965)	(2,854)
Transfers*	(21)	(65)	(91)	(16,828)	(187)
Adjustments	0	0	5	0	0
Ending Fund Balance (including investments)	\$47,915	\$48,510	\$40,723	\$36,014	\$35,664
Encumbrances	0	0	0	0	0
Restrictions:					
Interim construction loans	(25,000)	(24,502)	(14,962)	(11,500)	(11,096)
Rent subsidy guarantee	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Wailua loans and grants	0	(1,214)	(1,214)	(50)	(3)

* Transfers are made to the Housing Finance Revolving Fund and the Housing Finance & Development Administration Fund for administrative expenses. During FY1997, \$13.5 million was transferred to the general fund and \$3.2 million was transferred to the Rental Housing Trust Fund.

This fund was statutorily established to make payments under rental assistance contracts or to subsidize tenants' rents in projects. In addition, up to \$25 million from the fund plus any bond proceeds may be used to provide interim construction financing to qualified sponsors or to the Housing and Community Development Corporation of Hawaii to develop affordable rental housing. There is a clear link between the benefits sought and charges made upon users. Those receiving interim construction financing will replenish the loan through repayment of loan principal and interest. The fund is also financially self-sustaining. During FY1996-97, \$13.5 million from the fund was transferred to the general fund. A revolving fund is an appropriate financing mechanism for this program.

Rental Housing Trust Fund, Section 201F-2, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$15,237	\$17,621	\$16,921	\$12,133	\$12,600
Revenues	1,984	1,605	1,840	1,553	1,835
Interest	450	906	730	651	598
Expenditures	(50)	(3,211)	(7,358)	(4,937)	(2,698)
Transfers*	0	0	0	3,200	10,000
Ending Fund Balance	\$17,621	\$16,921	\$12,133	\$12,600	\$22,335
Encumbrances	0	0	0	0	0

* Transfers from the Rental Assistance Revolving Fund during FY1997 and a general obligation bond appropriation during FY1998.

Note: Financial data for FY1992-93 (ending balance) included in our previous report does not correspond to the financial data for FY1993-94 (beginning balance)

This fund was statutorily established to provide loans or grants for the development, predevelopment, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. Permitted uses of the fund include planning, design, land acquisition, costs of options, agreements of sale, down payments, equity financing, capacity building of nonprofit housing developers, and other housing development services or activities. The fund continues to meet its original purpose and provides the benefits originally intended to beneficiaries. The fund does not require any general fund appropriations and meets the definition of a trust fund.

**Accounts
Established Under
Administrative
Authority**

Federal College Appropriation-Hawaii Omnibus Act

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$5,400	\$5,400	\$5,400	\$5,400	\$5,439
Revenues	0	0	0	0	0
Interest	0	0	0	300	0
Expenditures	0	0	0	(261)	(5,439)
Transfers	0	0	0	0	0
Ending Fund Balance	\$5,400	\$5,400	\$5,400	\$5,439	\$0
Encumbrances	0	0	0	0	0

This account was established in 1961 to account for land grant college aid endowments. The University of Hawaii is the beneficiary of the income from the endowment funds. The Department of Budget and Finance invested moneys in the fund and credited the interest income derived from the investments to the University of Hawaii Special Fund. Act 236, SLH 1997, transferred moneys from the account to the University of Hawaii.

Refundable Deposits-Hawaii Inc.

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$1	\$1	\$1	\$1
Revenues	1	1	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(1)	0	0	0
Transfers*	0	0	0	0	(1)
Ending Fund Balance	\$1	\$1	\$1	\$1	\$0
Encumbrances	0	0	0	0	0

* Balance of account was lapsed to the general fund in FY1998.

This account was established to hold refundable deposits made by information service providers borrowing modems and other equipment needed to connect to services provided by Hawaii, Inc. The deposits were returned after the term of use expired and the equipment was returned in satisfactory condition. Funding for Hawaii, Inc. was discontinued by the Legislature on July 1, 1995 and the account was closed during FY1997-98.

Refundable Deposits-Public Utilities Commission

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$1	\$1	\$1	\$1	\$1
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	0	0	0	0	(1)
Ending Fund Balance	\$1	\$1	\$1	\$1	\$0
Encumbrances	0	0	0	0	0

* Balance of account was lapsed to the general fund in FY1998.

This account was established to hold refundable deposits made by persons or agencies requesting a hearing before the Public Utilities Commission. Deposits are forfeited if the hearing is canceled by the depositor. This account requires no general fund appropriations and is being used as a holding account for temporary deposits.

Special Purpose Revenue Bond-Security Deposit

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$25	\$28	\$31	\$39	\$7
Revenues	3	3	8	66	6
Interest	0	0	0	0	0
Expenditures	0	0	0	(98)	(7)
Transfers	0	0	0	0	0
Ending Fund Balance	\$28	\$31	\$39	\$7	\$6
Encumbrances	0	0	0	0	0

This account was administratively established to collect non-refundable security deposits from project parties for the purpose of reimbursing the Department of Budget and Finance for all costs and expenses incurred relating to the issuance of special purpose revenue bonds. The department negotiates with project parties to issue these bonds for nonprofit corporations that provide health care facilities to the general public, manufacturing enterprises, processing enterprises, industrial enterprises, and utilities that serve the general public. The account continues to serve its original purpose and requires no general fund appropriations.

Temporary Deposits-Budget and Finance

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$11	\$11	\$36	\$42	\$43
Revenues	0	25	6	1	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	0	0	0	0	(40)
Ending Fund Balance	\$11	\$36	\$42	\$43	\$3
Encumbrances	0	0	0	0	0

* During FY1998, \$37,800 of ICSD deposits were transferred to DAGS and \$1,792 was lapsed to the general fund.

This account was administratively established to hold temporary deposits related to vendor bids, performance bonds, and salary overpayments of the various divisions. The account continues to meet its original purpose and does not require any general fund appropriations.

Temporary Deposits-Finance Division

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$386	\$221	\$131	\$131	\$0
Revenues	240	103	0	0	0
Interest	0	0	0	0	0
Expenditures	(405)	(193)	0	0	0
Transfers*	0	0	0	(131)	0
Ending Fund Balance	\$221	\$131	\$131	\$0	\$0
Encumbrances	0	0	0	0	0

* Balance of the account was transferred to the general fund in FY1997.

This account was established to account for moneys received as trustee or agent relative to program transactions. The account continues to serve as a holding account for bid deposits from vendors and consultants. The account does not require any general fund appropriations and meets the criteria of a trust account.

Chapter 5

Department of Land and Natural Resources

This chapter presents the results of our review of 1 revolving fund, 2 trust funds, and 10 trust accounts used by the Department of Land and Natural Resources. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first those funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Public Land Trust Funds, Ceded Land Proceeds-Oahu, Maui, Hawaii, Kauai, Section 171-18, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	3,017	2,905	2,159	1,865	1,999
Interest	2	6	2	1	0
Expenditures	(3,019)	(2,911)	(2,161)	(1,866)	(1,999)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	0	0	0	0	0

There are four trust funds, one for each of the major islands. The financial data presented above is the total of the four funds. The funds were established in 1962 to account for the proceeds and income from the sale, lease, or other disposition of ceded lands. Revenues are held as a public trust for the support of the public schools and other public educational institutions; for the betterment of the conditions of native Hawaiians; for the development of farm and home ownership; for public improvements; and for the provision of lands for public use. Act 273, SLH 1980 requires that 20 percent of the income from the public land trusts be paid to the Office of Hawaiian Affairs. The funds continue to serve the purpose for which they were created and continue to provide the benefits originally intended. The funds are currently being used as temporary holding accounts to transfer revenues to the Office of Hawaiian Affairs. Moneys are then used for the betterment of native

Hawaiians. Act 329, SLH 1997 appropriated a fixed \$15.1 million in general funds for FY1997-98 and FY1998-99 for the pro rata portion of the land trust due to the Office of Hawaiian Affairs. The funds meet the definition of a trust fund and do not require any general fund appropriations.

Rehabilitation Trust Fund, Section 6K-9.5, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$5,327	\$7,722	\$7,442
Revenues	0	5,500	2,759	15	4,950
Interest	0	100	285	378	341
Expenditures	0	(273)	(649)	(673)	(979)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$5,327	\$7,722	\$7,442	\$11,754
Encumbrances	0	(122)	(160)	(169)	(223)

Created in 1994, this fund holds all moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho’olawe, appropriations made by the Legislature to the trust fund, and the interest or return on investments earned from moneys in the fund. The fund may be used to hire employees, specialists, and consultants to complete the rehabilitation and restoration of Kaho’olawe. However, activities cannot be fully underway until the U.S. Navy completes bomb removal sometime after 2003. Planned activities include the preservation, protection, rehabilitation, and revegetation of the island. Although the program received a general fund appropriation during FY1993-94 for operating funds to establish the Kaho’olawe Island Reserve Commission, no additional general funds have been appropriated. The fund meets the definition of a trust fund. It was created and continues to receive federal funds specifically for the rehabilitation and environmental restoration of the island of Kaho’olawe. Although this fund is not fully active, it meets the criteria of a trust fund.

Wildlife Revolving Fund, Section 183D-10.5, HRS

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$140	\$182	\$296	\$305	\$319
Revenues	119	132	110	261	175
Interest	4	2	7	0	0
Expenditures	(81)	(20)	(108)	(247)	(176)
Transfers	0	0	0	0	0
Ending Fund Balance	\$182	\$296	\$305	\$319	\$318
Encumbrances	(54)	(81)	(50)	(48)	(34)

This fund was established in 1988 to account for the following:

- Fees collected for hunting licenses, training programs, and use of public target ranges;
- Moneys collected under the provision of any law relating to the importation, taking, catching, or killing of game, wildlife, and products; and
- Moneys collected as fines or bail forfeitures concerning wildlife conservation.

Expenditures are limited to the following:

- Program and activities for wildlife projects;
- Wildlife conservation;
- Acquisition of the use, development, or maintenance of trails and accessways; and
- Research programs and activities concerning wildlife conservation and management.

The fund continues to serve the purpose for which it was created. Current activities include lease rental payments for the Lanai Cooperative Game Management Area, repair and maintenance of hunter access roads and trails, and construction and maintenance of management facilities in game management areas. There is a clear link between the benefits sought and the charges made upon users. Hunters, hikers, and wildlife watchers who benefit from the program replenish the fund through fees

for hunting licenses, hunter education activities, and game bird farmer licenses. The fund is financially self-sustaining and is an appropriate financing mechanism for the program.

**Accounts
Established Under
Administrative
Authority**

Accrued Vacation and Sick Leave Fund

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$592	\$577	\$439	\$445	\$437
Revenues	71	17	0	0	0
Interest	11	21	25	15	21
Expenditures	(97)	(176)	(19)	(23)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$577	\$439	\$445	\$437	\$458
Encumbrances	0	0	0	0	0

This account was originally created to account for the accrued vacation and sick leave for project-funded employees of the Land Division-Water and Land Development and the Division of State Parks. Prior to July 1, 1995, this account paid for accrued vacation and sick leave for project-funded employees that were charged to the related capital improvement projects of the various funds. Effective July 1, 1995, the Legislature appropriated \$1.5 million of bond funds to fund the CIP staff payroll. The balance remaining in this account represents the CIP staff employees' vacation and sick leave carryover from June 30, 1994. Although this fund is labeled a revolving fund, it meets the criteria of a trust account.

Appraisal Fees Revolving Fund

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$25	\$86	\$86	\$166	\$237
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(87)	(54)	(36)	(105)	(59)
Transfers*	148	54	116	176	67
Ending Fund Balance	\$86	\$86	\$166	\$237	\$245
Encumbrances	(56)	(21)	(66)	(37)	(23)

* Transfers from the Special Land and Development Fund.

This account was administratively established in 1962 to pay for the appraisal fees related to public lands. Funding is primarily provided by the Special Land and Development Fund. Although this account is labeled as a revolving fund, it operates more like a pass-through account for special fund moneys designated for a specific purpose.

Boating Security Deposits

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$534	\$607	\$681	\$694	\$704
Revenues	117	137	103	116	116
Interest	0	0	0	0	0
Expenditures	(54)	(63)	(90)	(106)	(80)
Transfers*	10	0	0	0	0
Ending Fund Balance	\$607	\$681	\$694	\$704	\$740
Encumbrances	0	0	0	0	0

* Transfer from the Department of Transportation.

This account was transferred from the Department of Transportation in July 1992. It was administratively established to hold security deposits from boating tenants of small boat harbors. The security deposits are usually equivalent to two months of rent. The deposits are returned when rental agreements are terminated. The account continues to serve its original purpose and requires no general fund appropriations.

Donations, Gifts, and Grants

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$30	\$7	\$29	\$18	\$39
Revenues	6	22	34	21	13
Interest	0	0	0	0	0
Expenditures	(29)	0	(45)	0	(29)
Transfers	0	0	0	0	0
Ending Fund Balance	\$7	\$29	\$18	\$39	\$23
Encumbrances	0	0	0	0	(21)

This account was administratively established to account for donations received from various subsidiaries of sugar plantations. Donations were

to be used for the operation and maintenance of sugarcane irrigation stations. Currently, no donations, gifts, or grants are being made to this account.

The account is being used as a clearing account for private parties to obtain and pay for stream gauging services rendered by the U.S. Geological Survey. Since the Geological Survey cannot enter agreements or contracts with private parties, the survey bills the State, and the State in turn bills the private parties. This account is no longer being used to account for donations, gifts, and grants. Instead, it is being used as a clearing account to pay for services rendered by the U.S. Geological Survey.

Payroll Clearance

Financial Data for Fiscal Years 1994-1995 (in thousands)

	FY 1994	FY 1995
Beginning Fund Balance	\$0	\$0
Revenues	1,525	1,392
Interest	0	0
Expenditures	(1,525)	(1,392)
Transfers	0	0
Ending Fund Balance	\$0	\$0
Encumbrances	0	0

This account was abolished during FY1995-96. Prior to this, it served primarily as a clearing account to facilitate the disbursement of payroll. Payroll costs of project-funded employees of the Division of State Parks and the Division of Water and Land Development were accumulated in and disbursed from this fund. The payroll costs were charged to the respective CIP appropriation, and the account was reimbursed based on monthly employee timesheets. Project-funded employees are now paid directly from bond fund appropriations.

Preservation of Endangered Plants

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$3	\$6	\$6	\$8	\$9
Revenues	3	2	2	1	1
Interest	0	0	0	0	0
Expenditures	0	(2)	0	0	(6)
Transfers	0	0	0	0	0
Ending Fund Balance	\$6	\$6	\$8	\$9	\$4
Encumbrances	0	0	0	0	0

This account was administratively established in 1989 to account for donations made by the Hawaii Credit Union League specifically for the preservation of endangered plants. The account continues to serve the purpose for which it was created. Expenditures from the account have included fencing off areas for endangered plants. This account does not require any general fund appropriations and meets the criteria of a trust account.

Publication of Notices Revolving Fund

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$15	\$10	\$6	\$10	\$29
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(8)	(4)	(1)	(1)	0
Transfers*	3	0	5	20	0
Ending Fund Balance	\$10	\$6	\$10	\$29	\$29
Encumbrances	0	0	0	0	0

* Transfers from the Special Land and Development Fund.

This account was established administratively in 1962 to account for the payment of publication notices and the reimbursement from the purchaser or lessee of public lands for their portion of expenditures. Funding is primarily provided by the Special Land and Development Fund. Although this account is labeled as a revolving fund, it operates more like a pass-through account for special fund moneys designated for a specific purpose.

Temporary Deposits

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$654	\$826	\$1,028	\$917	\$909
Revenues	429	446	207	209	300
Interest	0	0	0	0	0
Expenditures	(257)	(244)	(318)	(217)	(348)
Transfers	0	0	0	0	0
Ending Fund Balance	\$826	\$1,028	\$917	\$909	\$861
Encumbrances	(78)	(26)	(8)	(20)	(13)

This account was administratively established to temporarily hold security deposits for leases, permits, and licenses. It is also used to account for the payment of appraisal fees. The account continues to serve its original purpose as a holding account and does not require any general fund appropriations.

Temporary Deposits-Undistributed Proceeds

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	1,543	1,644	1,628	1,184	775
Interest	0	0	0	0	0
Expenditures	(1,543)	(1,644)	(1,628)	(1,184)	(715)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$60
Encumbrances	0	0	0	0	0

This trust account was created in 1992 to deposit land rental and water license revenues. Moneys in the account are transferred to the Department of Hawaiian Home Lands, Department of Agriculture, Department of Transportation, and the Hawaii Community Development Authority. The account continues to serve as a holding account for revenues generated by the rental of property or from water licenses managed by the department for other state agencies. The account does not require any general fund appropriations and meets the criteria of a trust account.

Temporary Deposits-Water Development

Financial Data for Fiscal Years 1994-1998 (in thousands)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Beginning Fund Balance	\$8,267	\$8,207	\$8,104	\$7,802	\$1,773
Revenues	240	848	198	142	368
Interest	197	18	332	0	0
Expenditures	(497)	(969)	(832)	(171)	(138)
Transfers*	0	0	0	(6,000)	0
Ending Fund Balance	\$8,207	\$8,104	\$7,802	\$1,773	\$2,003
Encumbrances	(151)	(80)	(79)	(81)	(14)

* Transfer to the Special Land and Development Fund

This account was administratively established to account for security deposits collected from individuals who review water development specifications and plans. The account is also used to hold miscellaneous receipts and to incur miscellaneous expenditures from various liaison and temporary projects. The account also held \$6 million transferred from the Department of Transportation as a result of a land exchange agreement. Because the exchange involved public lands, the proceeds were invested by the Department of Land and Natural Resources for the benefit of the Department of Hawaiian Home Lands. The \$6 million was transferred to the Special Land and Development Fund during FY1996-97. The account is being used as a holding account and does not require any general fund appropriations.

Responses of the Affected Agencies

Comments on Agency Responses

On January 9, 1999, we transmitted a draft of this review to the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources. A copy of the transmittal letter to the Department of Accounting and General Services is included as Attachment 1. Similar letters were sent to the Departments of Agriculture, Budget and Finance, and Land and Natural Resources. A copy of the responses of the Department of Accounting and General Services, Department of Agriculture, and Department of Budget and Finance are included as Attachments 2, 3, and 4, respectively. The Department of Land and Natural Resources did not submit a written response.

The Department of Accounting and General Services disagrees with our conclusion that the State Risk Management Revolving Fund does not meet the criteria for a revolving fund. The department stated that the fund is a cost-effective financing mechanism for the program and has made budgeting and expending for losses more manageable. However, the department agrees that the fund does not generally provide a clear link between the benefit sought and charges made upon users and is not self-sustaining.

The Department of Agriculture noted that once a specific Agribusiness Development Corporation project is identified, determined feasible, and implemented successfully, charges will be assessed and deposited into the Hawaii Agricultural Development Revolving Fund. The department also pointed out that the Temporary Deposit, Meat Grading account is needed to collect fees and make payments to the U.S. Department of Agriculture for meat grading services. It reports that only a small portion of the meat grader's services is subsidized by the State.

The Department of Accounting and General Services and Department of Agriculture provided several points of clarification that were incorporated into the report. Updated financial information provided by the Department of Budget and Finance has also been incorporated into the report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

January 8, 1999

COPY

The Honorable Ray Sato
State Comptroller
Department of Accounting and General Services
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Sato:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources*. We ask that you telephone us by Tuesday, January 12, 1999, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, January 19, 1999.

The Department of Agriculture, Department of Budget and Finance, Department of Land and Natural Resources, 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,

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR



**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES**

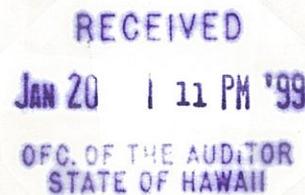
P. O. BOX 119
HONOLULU, HAWAII 96810-0119

RAYMOND H. SATO
COMPTROLLER

MARY PATRICIA WATERHOUSE
DEPUTY COMPTROLLER

January 15, 1999

Ms. Marion M. Higa
State Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917



Dear Ms. Higa:

Thank you for allowing us the opportunity to review and respond to the draft report of the "Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources".

The conclusions about the uses of the revolving funds, and trust funds and accounts pertaining to the Department of Accounting and General Services are discussed in Chapter 2 and to which our following comments are directed for the fund with which we disagree with your conclusion.

State Risk Management Revolving Fund, Section 41D-4, H.R.S.

Auditor's Conclusion: The fund does not meet the criteria for a revolving fund.

The Department disagrees with the conclusion of the State Auditor regarding the State Risk Management Revolving Fund.

Recognizing the volatile and unpredictable nature of losses and their potential to adversely impact the financial and operational integrity of the State Government, the State Risk Management Revolving Fund (Fund) was created with the passage of Act 266, SLH 1988 (Chapter 41D, H.R.S.) We feel that the Fund has served this purpose as shown by the central role the Fund played in financing losses from the devastation caused by Hurricane Iniki and other major losses without depleting the general fund resources. The Fund has made budgeting and expending for losses more manageable.

Although the Fund does not generally provide a clear link between the benefit sought and charges made upon the users of the program, certain non-general funded agencies (Department of Transportation, State Motor Pool, and Aloha Stadium) presently do provide for their allocated share of risk management costs. Also, the means of support for the Fund is not automatic, nor is it removed from the normal budget and appropriations process. Both the administration and legislature review for reasonableness the revolving fund appropriation request, as well as the general fund appropriation request needed to cover those State departments and agencies not providing for their allocated share of costs.

While a cost allocation system has been developed to make the Fund self-sustaining, we have been unsuccessful in fully implementing the system. However, the system is being used to annually inform agencies of their cost of risk that provides them with an incentive to reduce or prevent losses.

Lastly, the Department believes the Fund is the most cost-effective financing mechanism for the program. It is not a rainy day fund. Without the Fund, the program has no financial credibility to self-insure recurring or expected losses or to make decisions on which exposure should be insured or self-insured. The State would be unable to provide certificates of self-insurance for exposures not covered by insurance, thereby requiring those agencies to establish their own insurance programs. Insurance settlements will be deposited into the general fund, leaving agencies and other interested parties such as bondholders, with uncertainties as to the disposition of the monies from the settlements. Statewide insurance policies can be canceled or not renewed due to large unfunded premium increases resulting from disasters such as Hurricane Iniki, leaving the State without catastrophic insurance coverage. Loss control activities would be compromised due to the lack of accountability. Financing of losses other than through the State Risk Management Revolving Fund will prevent the timely restoration of damaged or destroyed facilities and lead to budgetary instability and disruption of services to the public.

We would also like to make a clarification regarding the State Motor Pool Revolving Fund. In the footnote to the Financial Data for Fiscal Years 1994-1998, transfers in include only vacation leave credits for employees transferring from other programs and transfers out are to the general fund, as provided for by section 79-5, H.R.S.

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

Very truly yours,



RAYMOND H. SATO
State Comptroller

C: Office of the Governor

BENJAMIN J. CAYETANO
Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
January 15, 1999

JAMES J. NAKATANI
Chairperson, Board of Agriculture

LETITIA N. UYEHARA
Deputy to the Chairperson

Mailing Address:
P.O. Box 22159
Honolulu, Hawaii 96823-2159
Fax: (808) 973-9613

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

RECEIVED
Jan 19 3 07 PM '99
OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to comment on your draft report, Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

Chapter 3 of the report covers your review of the trust and revolving funds used by the Department of Agriculture. We provide comments on the following revolving funds and trust accounts.

1. Coffee Inspection Revolving Fund, Section 147-7.5, HRS

We inadvertently missed identifying a \$2,000 encumbrance in FY 1998.
2. Hawaii Agricultural Development Revolving Fund, Section 163D-17, HRS

The Legislative Auditor notes that the Agribusiness Development Corporation (ADC) has not imposed charges upon beneficiaries who have benefited from services provided by the ADC. The projects identified were taken from the Legislative Reference Bureau's Report No. 2, 1997, one of which was terminated as stated in the report, and the remaining two, a survey and a feasibility study, were conducted as part of the ADC's planning functions and therefore not directly chargeable to any particular beneficiary at that time. However, once a specific project is identified, determined feasible, and implemented successfully, charges will be assessed upon those benefitting from ADC's services. An example of this is ADC's current efforts to achieve the asset purchase of the Waiahole Irrigation Company, Limited. The administration of the Waiahole Water System by the ADC will include the collection of delivery fees, based on the metered use of water, from the agricultural and other users who benefit from water flowing through the system. The water delivery rates will be established at a level sufficient to sustain the operation and maintenance of the system, to permit the ADC to charge administrative overhead, and to repay the reimbursable general obligation bonds that were issued to acquire the system. The administrative overhead charge will be deposited into ADC's Hawaii Agricultural Development Revolving Fund to cover the expenses of administering the system. There is a clear link between the benefit sought and charges made upon the users or beneficiaries of the program.



3. Marketing Order Revolving Fund, Section 147-101, HRS

We inadvertently missed identifying a \$19,000 encumbrance in FY 1994.

4. Pesticide Use Revolving Fund, Section 149A-13.5, HRS

We would like to clarify that the fund is replenished primarily through pesticides licensing fees paid by pesticide registrants and also from educational fees paid by pesticide applicators, including farmers and pest control operators.

5. Temporary Deposit, Meat Grading

Meat grading is an essential service for Hawaii's livestock industry if local ranchers are to supply meat for local consumption. U.S. Department of Agriculture (USDA) grading services are not as easily available to us because Hawaii is not part of the contiguous U.S. We need to have a grader stationed in Hawaii to provide this service. To do this, Hawaii has to guarantee a 40 hour work week for the grader. At the peak of the cattle industry, a full-time grader was justified, however, with the closure of Hawaii Meat Company and its feedlot, the demand for grading dropped. To accommodate for the reduced demand for grading, the department has arranged for other USDA agencies to utilize the grader in their programs. In addition to grading, the grader presently does fish inspection and works part-time for the USDA Fruit fly Rearing Facility on Oahu, leaving only approximately five hours a week which the State subsidizes.

With the expansion of a major processor in Honolulu and the construction of a new slaughterhouse on Oahu, the demand for grading is expected to increase. There is also a building demand to grade grass finished cattle for local consumption.

The Meat Grading trust account was established as a temporary holding account to deposit the collection of the grading fees from the meat grader's users until the funds can be remitted to the USDA. The signatories on the cooperative agreement for these grading services are USDA and the Department of Agriculture. As such, the department is responsible for the collection of grading fees and payments to USDA. Without such an account, another repository has to be utilized or created for this transaction.

Your consideration of our comments will be greatly appreciated.

Sincerely,


JAMES J. NAKATANI
Chairperson, Board of Agriculture

c: Office of the Governor

CHRL956

BENJAMIN J. CAYETANO
GOVERNOR



EARL I. ANZAI
DIRECTOR
WAYNE H. KIRIURA
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII PUBLIC EMPLOYEES HEALTH FUND

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION

OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

P. O. BOX 150
HONOLULU, HAWAII 96810-0150

January 20, 1999

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

RECEIVED
JAN 20 4 30 PM '99
OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

The Department of Budget and Finance (DB&F) has reviewed the draft report, Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, and Department of Land and Natural Resources as requested in your letter dated January 8, 1999. Two administratively attached agencies of the DB&F, the Employees' Retirement System (ERS) and the Hawaii Public Employees Health Fund (HF) provided comments on the report.

1. Employees' Retirement System of the State of Hawaii, Section 88-22, HRS (page 39)

The preliminary FY 1998 fund balances included on page 39 of the report have since been updated and are as follows:

	<u>FY 1998</u>
Beginning Fund Balance	\$7,888,168
Revenues	1,479,499
Interest	199,121
Expenditures	(515,006)
Transfers	0
Ending Fund Balance	\$9,051,782
Encumbrances	0

The FY 1998 revenue and expenditures reflect securities lending revenue and expenses in accordance with GASB 28. Prior to FY 1998, securities lending activities were reflected as net revenues.

2. Hawaii Public Employees Health Fund, Section 87-2, HRS
(page 41)

The preliminary fund balances for FY 1997 and FY 1998 included in the report have been updated as follows:

	<u>FY 1997</u>	<u>FY 1998</u>
Beginning Fund Balance**	\$64,878	\$54,272
Revenues	4,780	13,416
Interest	2,542	1,941
Expenditures	(210)	(128)
Transfers *	(17,718)	(26,179)
Ending Fund Balance**	\$54,272	\$43,322
Encumbrances	0	0

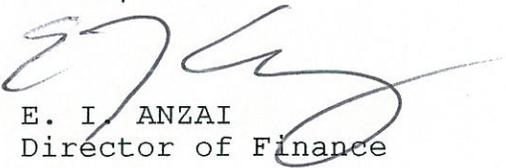
* Transfers are to state and county public employers for reserves in accordance with Section 87-3, Hawaii Revised Statutes, and Act 141, Session Laws of Hawaii 1998.

** Fund balances reflect expendable trust funds transactions and do not reflect agency funds transactions.

The HF also recommends inclusion of the language contained in Attachment 1.

The report was also forwarded to the Department of Business, Economic Development and Tourism and they had no comments. If you or your staff have any questions, please contact Mr. Stanley Shiraki, Administrative Services Officer, at 586-1601.

Aloha,


E. I. ANZAI
Director of Finance

Attachment

The Hawaii Public Employees Health Fund (HF) provides employee-beneficiaries, dependent-beneficiaries, and reciprocal beneficiaries with health and life insurance benefits. The fund also provides health insurance coverage to the surviving spouses and children under the age of 19 of deceased retirees or employees killed in the performance of their duties. The fund may be used to stabilize health benefit plan rates or long-term care benefit plan rates and with the approval of the legislature for other related fund expenses. Although authorized by the 1989 Legislature, the Health Fund has not implemented its long-term care insurance plan.

The program's general fund received monies to support the payroll, operating, and administrative expenses. Trust and agency funds are used to account for assets held by the Health Fund in a trustee or agency capacity. These include expendable trust funds which account for cash collected and expended by the Health fund as trustee. The revenues are primarily derived from refunds of experience gains and interest earned on money from health and life insurance carriers. Agency funds account for the receipts and disbursements of various amounts collected by the Health fund in a custodial capacity and are derived primarily from government and employee contributions.