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# **Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources**

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai'i

Report No. 14-04  
February 2014



**THE AUDITOR**  
STATE OF HAWAI'I

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## Office of the Auditor

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

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

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

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



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**We reported on 51  
funds and accounts:  
3 revolving funds,  
20 special funds, 13  
trust funds, and 15  
trust accounts.**

Response

Prior Audits

# Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources

Report No. 14-04, February 2014

*Seventy-nine special funds, revolving funds, trust funds, and trust accounts were reviewed*

## Eleven funds and accounts did not meet fund criteria

Section 23-12, HRS, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds will be reviewed once every five years. This is our fifth review of the revolving funds, trust funds, and trust accounts of the Department of Land and Natural Resources. It is our first review of the Department of Defense and both departments' special funds, since Act 130, SLH 2013, amended Section 23-12, HRS, to require we review the Department of Defense's revolving and trust funds, and to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit for those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll or other costs.

We reviewed 79 special funds, revolving funds, trust funds, and trust accounts; and reported on 51 of them (20 special funds, three revolving funds, 13 trust funds, and 15 trust accounts). We used criteria developed by the Legislature as well as by our office from a review of public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which is provided for informational purposes. We do not present conclusions about the effectiveness of the program or its management, or whether the program should be continued. However, we found that 11 of the 51 funds and accounts did not meet applicable fund criteria.

## Inconsistencies were noted

We also noted inconsistent adherence to statutory reporting of financial transactions and balances, resulting in reports that are incomplete or not filed and that, although some funds have been repealed or are no longer active, their appropriation accounts have not been closed and balances remain. Accurate and complete reporting, as well as timely closing of funds, will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

## Agencies' responses

We transmitted a draft of this review to the Department of Defense and the Department of Land and Natural Resources. The Department of Defense concurred with our review. The Department of Land and Natural Resources agreed with our review of three of its funds, but it disagreed with or provided clarifying information on seven special funds.

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# **Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources**

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai'i

Submitted by

**THE AUDITOR**  
STATE OF HAWAI'I

Report No. 14-04  
February 2014

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## Foreword

This is a report of our review of special funds, revolving funds, trust funds, and trust accounts used by or administratively attached to the Department of Defense and the Department of Land and Natural Resources.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the State Auditor to review all existing special, revolving, and trust funds once every five years. This is our fifth review of the revolving funds, trust funds, and trust accounts of the Department of Land and Natural Resources. It is our first review of the Department of Defense, and both departments' special funds, since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require regular reviews of the Department of Defense revolving and trust funds, and to include reviews of all special funds statewide.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Defense and the Department of Land and Natural Resources.

Jan K. Yamane  
Acting State Auditor

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# Chapter 1

## Introduction

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Section 23-12, Hawai‘i Revised Statutes (HRS), requires the State Auditor to review all special, revolving, and trust funds administered by each state department every five years. This report presents our review of the Department of Defense (DOD) and the Department of Land and Natural Resources (DLNR). This is our fifth review of the revolving funds, trust funds, and trust accounts of DLNR and our first since enactment of Act 130, Session Laws of Hawai‘i (SLH) 2013, which expanded Section 23-12, HRS, to also require regular fund reviews of DOD’s and the Department of Transportation’s revolving and trust funds, as well as reviews of all special funds statewide. Our reviews of the Departments of Accounting and General Services, Agriculture, and Budget and Finance’s funds were published as Report No. 14-01. We will publish our review of the Department of Transportation’s funds in a subsequent report.

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## Background

In 1990, through Act 240, SLH 1990, the Legislature required the State Auditor to conduct a review of all special and revolving funds and to recommend whether they be continued, modified, or repealed. The Legislature was concerned with the proliferation of these types of funds because moneys deposited into and spent from special and revolving funds are not subject to the level of legislative scrutiny as those in the State’s general fund.

The review required by Act 240, SLH 1990, was completed and presented in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds and recommended that 70 be repealed, discontinued, or allowed to sunset. We also found that many held cash balances far in excess of program needs and recommended that unneeded cash be transferred to the general fund.

Regular reviews of agency revolving and trust funds by the Auditor were later required by Act 280, SLH 1993. Codified as Section 23-12, HRS, the act expanded the concept of Act 240, SLH 1990, by requiring the Auditor to conduct a review of each revolving and trust fund administered by the State once every five years. The law was again expanded through Act 130, SLH 2013, to include a review of all special funds once every five years and to add the Departments of Defense and Transportation to the list of agencies reviewed.

Section 23-12, HRS, now specifies that five-yearly reviews shall include:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund's performance standards as established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending fund balance for each fiscal year.

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## **Description of Revolving Funds, Special Funds, Trust Funds, and Trust Accounts**

### ***Revolving funds***

Section 37-62, HRS, defines a revolving fund as a fund “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is 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 commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans. An example of a revolving fund is the State Motor Pool Revolving Fund, which is used to purchase and maintain the State's fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

### ***Special funds***

Section 37-62, HRS, defines a special fund as a fund “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State of Hawai'i's *Accounting Manual*, special funds are funds used to account for revenues earmarked for particular purposes and funds from which expenditures are made for those purposes. Examples of special funds include the Captive Insurance Administrative Fund, which is funded through fees and premium taxes and supports the State's Captive Insurance Program and the Wireless Enhanced 911 Fund. The Wireless Enhanced 911 Fund receives surcharges from wireless phone users for the upgrade of the 911 emergency system.

**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 only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments into the fund are to be held for the beneficiaries of the pension fund. Another example is tenants’ security deposits, which are held in trust funds for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

**Trust accounts**

The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. Trust accounts serve as state agencies’ separate holding or clearing accounts or as accounting devices to credit or charge agencies or projects for payroll or other costs.

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**Criteria for  
Reviewing  
Revolving Funds,  
Special Funds,  
Trust Funds, and  
Trust Accounts**
***Special and revolving  
fund criteria***

In 2002, the Legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, now state that special and revolving funds may only be established by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by the purpose of the program to be supported by the fund; the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue—as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;
- Provides an appropriate means of financing for the program or activity, used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

### ***Trust fund and trust account criteria***

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account can be established other than by statute. The criteria used to review trust funds and trust accounts are the extent to which each fund or account:

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

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

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### **Objectives of the Review**

1. Identify all special funds, revolving funds, trust funds, and trust accounts of the Department of Defense and the Department of Land and Natural Resources.
2. For each special fund, revolving fund, trust fund, and trust account, determine the original intent and purpose, per statute and as understood by the agency, and determine the degree to which each fund or account achieves its stated and claimed purposes.
3. Evaluate fund performance standards established by the agencies.
4. Provide a five-year (FY2009–FY2013) unaudited financial summary for each fund or account reviewed.

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### **Scope and Methodology**

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by the Department of Defense and the Department of Land and Natural Resources, and any administratively

attached agencies, during the five-year period under review. The funds and accounts include those established by statute as well as by administrative authority.

We researched statutes, session laws, and legislative history. We reviewed administrative rules, policies and procedures, financial audit reports, agency financial reports, performance standards established by the agency, and other documents as appropriate. To gain an understanding of fund operations, we interviewed key fiscal and program personnel as necessary. We also obtained a summary statement for each fund reflecting the total fund transactions in the preceding five fiscal years (July 1, 2008 to June 30, 2013), including fund balances at the beginning of each fiscal year, total revenues, amount of interest earned, total expenditures and encumbrances, transfers, and ending fund balances for each fiscal year.

If applicable, we obtained explanations for, but did not reconcile, discrepancies between DLNR's ending balances for FY2008 reported in our Report No. 09-01, *Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources*, and the opening balances reported to us for FY2009. Some differences are expected, since ending balances are often not final by the deadline required for our review.

Procedures were performed on each fund using relevant criteria. We reviewed fund information for compliance with the intent of each fund's use and determined the relationship between charges on users and expenditures. We reviewed and compared fund balances to financial activity and projected program needs and standards. We also reviewed information provided by agencies on performance standards established for the funds or accounts, and performed other procedures as necessary.

Where appropriate, we relied on prior funds review reports, including Report Nos. 01-12, *Update of the 1992 Summary of Special and Revolving Funds*; 09-01, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources*; and 12-04, *Study of the Transfer of Non-general Funds to the General Fund*. Recommendations were made where applicable.

This fund review, which included inquiries and examination of documents, was conducted from July 2013 to December 2013. Our review followed standard office procedures according to the Office of the Auditor's *Manual of Guides*. We did not audit the agencies' financial data, which is provided for informational purposes only.

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# Chapter 2

## Department of Defense

This chapter presents the results of our review of seven trust funds and five trust accounts of the Department of Defense (DOD), which does not have any special or revolving funds. 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 offer any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present, in alphabetical order, the funds and accounts established by statutory and administrative authority. Financial data for each fund or account were obtained from the department.

Exhibit 2.1 summarizes DOD’s fund that does not meet criteria for continuance.

**Exhibit 2.1**  
**Department of Defense Fund Not Meeting Criteria**

Fund Name	Fund Type	6/30/13 Balance (rounded)	No longer serves original purpose	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Program can operate under general fund appropriation process	Inappropriate financing mechanism	Not financially self- sustaining
State DOD Physical Amelioration Donation	Trust Fund	\$0	✓				

Source: Office of the Auditor

**Accumulated Vacation  
and Sick Leave  
(trust fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$595	\$676	\$789	\$864	\$921
Revenues	100	155	88	68	73
Interest	0	0	0	0	0
Expenditures	(19)	(42)	(13)	(11)	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$676</b>	<b>\$789</b>	<b>\$864</b>	<b>\$921</b>	<b>\$994</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was created. The purpose of the fund is to ensure that vacation expenditures accrued in past-year contracts do not affect current-year federal contracts and operations, and that vacation expenditures are charged to the appropriate federal fiscal year in which they were authorized. The fund is used to cover payouts of unused vacation or sick leave incurred in prior years so that current federal contracts do not incur these obligations.

**Asset Forfeiture Trust  
Account  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$288	\$207	\$147	\$128	\$141
Revenues	34	0	0	40	0
Interest	0	0	0	0	0
Expenditures	(115)	(60)	(19)	(27)	(11)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$207</b>	<b>\$147</b>	<b>\$128</b>	<b>\$141</b>	<b>\$130</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria for a trust account and continues to serve the purpose for which it was created. The purpose of the account is to receive a prorated share of funds generated from the sale of assets that were seized and auctioned off as a result of federal government

drug enforcement operations in which the Hawai'i National Guard participated. Use of the money is restricted to programs aimed at reducing drug use.

***Ceded Lands Proceeds  
(trust account)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was created, which was to collect and transfer moneys owed the Office of Hawaiian Affairs. For example, a related account, the Security Deposits and Use Permits account, receives moneys from a variety of activities, including rental of a parking lot at Fort Ruger. During the review period, moneys transferred from the Security Deposits account to the Ceded Lands account included 20 percent of Fort Ruger parking lot rental fees. All amounts involved and ending balances are less than \$1,000.

**FEMA Major Disaster Trust Account (trust account)**

**Section 127-11, HRS**

**Financial Data for Fiscal Years 2011–2013 (in thousands)**

	FY2011	FY2012	FY2013
Beginning Balance	\$0	\$408	\$664
Revenues	408	256	156
Interest	0	0	0
Expenditures	0	0	(350)
Transfers	0	0	0
<b>Ending Balance</b>	<b>\$408</b>	<b>\$664</b>	<b>\$470</b>
Encumbrances	\$0	\$0	\$0

This account meets the criteria for a trust account and serves the purpose for which it was originally created. The account was established in 2010 to receive federal reimbursements from the Federal Emergency Management Agency (FEMA) for disaster relief expenditures. During a disaster, the State DOD Civil Defense Division advances payments for disaster relief through the major disaster fund, supplemented by the department’s operating funds until moneys are reimbursed by FEMA, a process that can take up to a year or longer.

**HSVC Trust Fund (trust fund)**

**Administratively established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$11	\$10	\$11	\$16	\$16
Revenues	0	1	5	0	0
Interest	0	0	0	0	0
Expenditures	(1)	0	0	0	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$10</b>	<b>\$11</b>	<b>\$16</b>	<b>\$16</b>	<b>\$16</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund continues to meet the purpose for which it was created and meets criteria of a trust fund. The fund is used to supplement general fund appropriations for the Hawai‘i State Veterans Cemetery by providing money to buy equipment and “extraordinary items” needed to

maintain the cemetery. The trust fund receives revenue in the form of donations and gifts from friends and families of veterans interred at the cemetery.

***Hawai'i Youth  
Challenge Academy  
(trust fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2011 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
Beginning Balance	\$10	\$10	\$10
Revenues	0	0	0
Interest	0	0	0
Expenditures	0	0	0
Transfers*	0	0	(10)
<b>Ending Balance</b>	<b>\$10</b>	<b>\$10</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0

\*Transfer in FY2011 was to the Hawai'i National Guard Youth Challenge Foundation.

This administratively created trust fund was closed in FY2011 after its balance was transferred to the Hawai'i National Guard Youth Challenge Foundation. The trust fund had accepted donations to assist with scholarships and fees for the academy, which provides educational programs to non-traditional teenage students at two campuses.

***Juvenile Accountability  
Block Grant  
(trust fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2011–2013 (in thousands)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$26	\$73
Revenues	26	240	5
Interest	0	0	0
Expenditures	0	(193)	(32)
Transfers	0	0	0
<b>Ending Balance</b>	<b>\$26</b>	<b>\$73</b>	<b>\$46</b>
Encumbrances	\$0	\$0	\$0

This fund meets the criteria of a trust fund and serves the purpose for which it was created. The fund was established in 2011 to provide

support to the City and County of Honolulu’s Department of Community Services (DCS), which administers sanctions for state offenders and minor law violators to help prevent further involvement with the juvenile justice system. The DOD is the designated state agency responsible for administrating and planning the Juvenile Accountability Block Grant program administered by the U.S. Department of Justice. Pursuant to the memorandum of agreement between the DOD and DCS, DOD’s responsibilities include reimbursing DCS for expenses associated with the grant, fiscal oversight and monitoring of the funds, and periodic review of the program’s performance. The time of performance of the agreement was April 18, 2011, to April 17, 2012. The DOD is in the process of closing the fund.

**Risk Management—  
Fire and Casualty  
Losses  
(trust account)**

**Section 41D-4(g), HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and, although lacks financial activity, continues to serve its intended purpose. The account was established pursuant to Section 41D-4(g), HRS, to provide reimbursements to state entities with federal funds after a fire loss. Moneys deposited into the account consist of federal fund reimbursements for fire losses used to pay parties that initially funded the costs. According to the department, there is no program to support this account.

**Security Deposits and  
Use Permits  
(trust fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$223	\$351	\$365	\$289	\$315
Revenues	139	41	51	52	88
Interest	0	0	0	0	0
Expenditures	(11)	(27)	(127)	(26)	(120)
Transfers*	0	0	0	0	(1)
<b>Ending Balance</b>	<b>\$351</b>	<b>\$365</b>	<b>\$289</b>	<b>\$315</b>	<b>\$282</b>
Encumbrances	\$0	\$6	\$9	\$10	\$1

\*FY2013 transfers out include more than \$1,000 to the Ceded Lands Proceeds trust account.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was created. The fund holds and tracks charges and expenses related to renting armories, training sites, parking, lodging, and energy savings reinvestment for Hawai'i's DOD. The fund receives fees for the provision of lodging, armory rental, and parking services. Moneys collected can only be used for the facility that generated the revenue. Twenty percent of the Fort Ruger parking lot rental fees are transferred to the Ceded Land Proceeds trust account.

**State DOD Physical  
Amelioration Donation  
(trust fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2010–2013 (in thousands)**

	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Interest	0	0	0	0
Expenditures	0	0	0	0
Transfers	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0

This fund, which was administratively established in 2010 to provide a vehicle by which parties can donate money to the State for disaster recovery, meets the criteria of a trust fund. However, due to the lack of financial activity, the fund does not appear to be serving its intended purpose. We recommend the department evaluate the continued need for the fund. According to the department, there is no program to support the fund and the fund has never received donations.

**Temporary Deposits—  
Payroll Overpayment  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	2	0	0	1	0
Interest	0	0	0	0	0
Expenditures	(2)	0	0	(1)	0
Transfers*	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

\*In FY2012, a transfer in and out of \$8,802 involved Summer Youth Employment Program payments.

This account meets the criteria of a trust account and serves the purpose for which it was originally created. The account is used to track money owed to the Department of Accounting and General Services as a result of payroll overpayments. According to the DOD, the account is not used often, since payroll overpayments are rare.

***Tsunami and Hurricane  
Preparedness Efforts  
(trust fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$962	\$813	\$655	\$463	\$383
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(149)	(158)	(192)	(80)	(96)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$813</b>	<b>\$655</b>	<b>\$463</b>	<b>\$383</b>	<b>\$287</b>
Encumbrances	\$758	\$600	\$461	\$381	\$250

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. The fund was administratively established pursuant to Act 5, SLH 2005. In Act 5, the Legislature found that action was needed for natural disaster preparedness, including tsunami and hurricane preparedness efforts. In FY2006 and FY2007, the fund was appropriated a total of \$4 million out of the Hurricane Reserve Trust Fund. Moneys were to be used for installing and maintaining new siren systems, updating evacuation maps in telephone books, constructing additional shelter space, and retrofitting existing public buildings that could serve as emergency shelters. The moneys were also to be used for developing statewide residential safe room design standards, providing around the clock alert staff for the Civil Defense Division of the DOD, and expanding public education campaigns that emphasize the need for tsunami and hurricane preparedness.

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# Chapter 3

## Department of Land and Natural Resources

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This chapter presents the results of our review of 20 special funds, three revolving funds, six trust funds, and ten trust accounts of the Department of Land and Natural Resources (DLNR). We also reviewed 27 other DLNR accounts, but did not include them in this report because they were either related to other accounts being analyzed or were not within the scope of our work. 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 offer any conclusions about the effectiveness of the program to which the fund or account relates, its management, or whether the program should be continued. We present, in alphabetical order, the funds and accounts established by statutory and administrative authority. Financial data for each fund or account was obtained from the department.

Exhibit 3.1 summarizes DLNR's funds and accounts that do not meet the criteria for continuance.

**Exhibit 3.1**  
**Department of Land and Natural Resources Funds and Accounts Not Meeting Criteria**

Fund Name	Fund Type	6/30/13 Balance (rounded)	No longer serves original purpose	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Program can operate under general fund appropriation process	Inappropriate financing mechanism	Not financially self-sustaining
Accrued Vacation and Sick Leave Fund	Revolving	\$469,000				✓	
Boating Special Fund	Special	\$7,573,000		✓*			
Bureau of Conveyances Special Fund	Special	\$2,770,000	✓*				
Forest Stewardship Fund	Special	\$2,732,000		✓*			✓*
Land Conservation Fund	Special	\$10,589,000		✓*			
Land Division—Water Monitoring Service	Trust Account	\$9,000	✓				
Nā Ala Hele Special Fund	Special	\$443,000		✓*			
Natural Area Reserve Fund	Special	\$9,517,000		✓*			
Preservation of Endangered Plants	Trust Account	\$2,000	✓				✓
Special Land and Development Fund	Special	\$10,271,000		✓*			

\*There is a partial nexus between the benefits sought and charges made upon the program users or beneficiaries.

Source: Office of the Auditor

**Accrued Vacation  
and Sick Leave Fund  
(revolving fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$547	\$587	\$576	\$556	\$512
Revenues	30	0	0	26	12
Interest	10	7	10	3	1
Expenditures	0	(18)	(30)	(73)	(56)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$587</b>	<b>\$576</b>	<b>\$556</b>	<b>\$512</b>	<b>\$469</b>
Encumbrances	\$0	\$0	\$36	\$2	\$0

This administratively created fund meets the purpose for which it was created, but does not meet criteria for a revolving fund; a trust fund classification would be more appropriate. The fund was created administratively prior to the 2002 enactment of Section 37-52.4, HRS, which requires that revolving funds be established by an act of the Legislature. The fund receives and holds funds for vacation and sick leave related to capital improvement project-funded staff positions. Revenue is collected from interest earned on the fund balance and from vacation and sick leave pay-offs from employees who transfer into capital improvement project-funded positions from other state or county agencies. Expenditures consist of vacation payouts for employees leaving a capital improvement project-funded position. The fund does not meet the definition of a revolving fund, which typically is replenished through charges made for goods or services, or through transfers from other accounts. A more appropriate classification is that of a trust fund, in which designated persons have a vested beneficial interest. The department says it will pursue a reclassification of this fund to a trust fund.

**Assistance in  
Managing Land Fund  
(trust fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$123	\$266	\$353	\$221	\$56
Revenues	228	228	0	0	278
Interest	2	3	5	1	0
Expenditures	(87)	(144)	(137)	(166)	(109)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$266</b>	<b>\$353</b>	<b>\$221</b>	<b>\$56</b>	<b>\$225</b>
Encumbrances	\$111	\$247	\$190	\$54	\$164

This administratively created fund meets the criteria of a trust fund and continues to meet the purpose for which it was created. The fund, which is used to pay for management activities, was created in 2007 after the department signed a memorandum of agreement with the Office of Hawaiian Affairs (OHA) to manage the 28,855 acres known as Wao Kele O Puna. The OHA transfers money into the fund annually.

**Beach Restoration  
Special Fund  
(special fund)**

**Section 171-56, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$1,499	\$1,481	\$1,811	\$453	\$694
Revenues	672	453	199	347	199
Interest	5	18	0	0	0
Expenditures	(195)	(141)	(57)	(106)	(183)
Transfers*	(500)	0	(1,500)	0	400
<b>Ending Balance</b>	<b>\$1,481</b>	<b>\$1,811</b>	<b>\$453</b>	<b>\$694</b>	<b>\$1,110</b>
Encumbrances	\$66	\$43	\$96	\$107	\$100

\*Transfers in FY2009 and FY2011 were made for planning, design, and implementation of the Waikiki Beach Maintenance Project. Transfers into the fund in FY2013 were done in preparation of an anticipated Maui beach restoration project.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was created. The fund was established by statute in 1999 to support beach restoration to benefit the people of Hawai‘i. The primary revenue source is easements granted to owners of private

residences, hotels, resorts, and others who have seawalls and revetments that encroach on public lands. Other revenue sources can include fines for shoreline violations, private donations, grants, and legislative appropriations. No general fund appropriations were made to the fund during the period under review. Expenditures include beach restoration and maintenance projects, such as the Waikiki Beach Maintenance Project, and acquisition of professional and technical services and research.

***Boating Ceded Land  
Proceeds  
(trust account)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$3	\$3	\$13	\$67	\$840
Revenues	1,050	968	1,092	1,152	1,327
Interest	0	0	0	0	0
Expenditures	(1,050)	(958)	(1,038)	(379)	(1,525)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$3</b>	<b>\$13</b>	<b>\$67</b>	<b>\$840</b>	<b>\$642</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

The financial data presented above combines four trust accounts—one for each of the major Hawaiian Islands. These accounts serve the purpose for which they were created and meet the criteria for trust accounts. The accounts were administratively established in 2006 to receive 20 percent of revenues derived from DLNR’s Division of Boating and Ocean Recreation’s ceded lands. The funds are to be paid to the OHA on a quarterly basis, although for FY2012 there were fund disbursements that occurred in the following year.

**Boating Security Deposits (trust account)**

**Administratively established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$952	\$944	\$956	\$1,126	\$1,309
Revenues	68	102	170	189	173
Interest	0	0	0	0	0
Expenditures	(76)	(90)	0	(6)	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$944</b>	<b>\$956</b>	<b>\$1,126</b>	<b>\$1,309</b>	<b>\$1,482</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to meet the purpose for which it was established. The account was transferred to DLNR from the Department of Transportation in July 1992 and holds facility-use security deposits from tenants at small boat harbors. Revenue includes deposits from commercial ramp and harbor-use permits and recreational harbor-use permits, such as those for mooring and living aboard boats. Amounts are set by administrative rules, with a mooring fee security deposit charged at twice the mooring fee amount. Security deposits are returned when permits are not renewed.

**Boating Special Fund (special fund)**

**Section 200-8, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$2,184	\$1,825	\$2,949	\$5,601	\$7,026
Revenues	11,701	11,720	13,304	14,708	14,776
Interest	33	19	28	14	16
Expenditures	(10,809)	(9,593)	(9,344)	(11,577)	(12,442)
Transfers*	(1,284)	(1,022)	(1,336)	(1,720)	(1,803)
<b>Ending Balance</b>	<b>\$1,825</b>	<b>\$2,949</b>	<b>\$5,601</b>	<b>\$7,026</b>	<b>\$7,573</b>
Encumbrances	\$1,255	\$1,324	\$1,376	\$1,771	\$1,681

\*Transfers consist of moneys to the DLNR's Conservation and Resources Enforcement fund for payment of enforcement officers and the Natural and Physical Environment fund. Money was also transferred out to a federal funds account.

This fund meets the purpose for which it was created and partially meets the criteria of a special fund. The fund was created in 1972 and supports the state's boating program, which oversees the small boat harbors, boating safety, registration, and boating casualty investigations. Most fund revenues come from fees paid for use of the harbors, such as mooring and ramp fees, along with a portion of the liquid fuel tax and property rentals. Money is used by the DLNR to maintain harbor and ramp facilities and for oversight of ocean waters from the ocean high-water mark to three miles offshore. The fund only partially meets criteria for a special fund because boaters pay fees to maintain harbor and ramp facilities, but there are no user fees funding the ocean recreation portion of the boating program's mission. In effect, fuel taxes and mooring, vessel registration, ramp, and other fees paid by small-boat harbor users can be used for services received by non-boaters. Examples of this include removal of ocean-borne trees that could prove hazardous to swimmers and installation of buoys at Ala Moana Beach Park to separate stand-up paddleboarders from swimmers for safety reasons.

**Bureau of  
Conveyances Special  
Fund  
(special fund)**

**Section 502-08, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$699	\$568	\$945	\$1,970	\$2,110
Revenues	3,355	4,172	4,690	4,188	4,836
Interest	9	1	0	0	0
Expenditures	(3,897)	(3,299)	(3,456)	(3,734)	(4,253)
Transfers*	402	(497)	(209)	(314)	77
<b>Ending Balance</b>	<b>\$568</b>	<b>\$945</b>	<b>\$1,970</b>	<b>\$2,110</b>	<b>\$2,770</b>
Encumbrances	\$60	\$278	\$46	\$284	\$145

\*Transfers include a \$450,000 loan from the Special Land and Development Fund and a \$150,000 loan to the Natural Area Reserve Fund, \$274,234 to the general fund, and other transfers.

This fund partially meets the purpose for which it was created and partially meets criteria for special funds. The fund was created by statute in 1999 to support operations and improvements of the Bureau of Conveyances, which maintains a permanent record system for title to real property. The bureau receives a portion of recording fees, copy fees, and subscription fees for an online system. The bureau uses this money to pay for operations, equipment, maintenance, and improvements. The fund also is required by Section 502-08, HRS, to transfer certain balances

in excess of \$500,000 at the fiscal year-end to the general fund. We determined the fund mostly meets its original purpose, but goes outside this scope by lending to another DLNR fund. In September 2011, the fund loaned \$150,000 to the Natural Area Reserve Fund to help build support for proposed legislation on funding for a watershed protection and restoration plan. The money was repaid in July 2012.

***Ceded Land Proceeds,  
General Fund Portion  
(trust account)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$6,100	\$9,903	\$10,713	\$13,367	\$15,931
Revenues	5,677	5,618	5,359	4,091	2,241
Interest	0	0	72	49	47
Expenditures	(1,874)	(4,808)	(2,777)	(1,576)	(226)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$9,903</b>	<b>\$10,713</b>	<b>\$13,367</b>	<b>\$15,931</b>	<b>\$17,993</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

The financial data presented above combines four trust accounts—one for each of the major Hawaiian Islands. These accounts continue to serve the purpose for which they were created and meet criteria for trust accounts. The accounts were created administratively to receive 80 percent of revenues derived from the use of ceded lands. The general fund share of receipts derived from ceded lands are deposited into the accounts, and are used to cover the difference between total payments to the OHA from state agencies during the year and the \$15.1 million owed to OHA annually under Section 10-13.3, HRS.

**Commercial Fisheries  
Special Fund  
(special fund)**

**Section 189-2.4, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$379	\$579	\$408	\$624	\$720
Revenues	461	263	319	330	266
Interest	8	5	0	0	0
Expenditures	(250)	(203)	(186)	(211)	(205)
Transfers*	(19)	(236)	83	(23)	(30)
<b>Ending Balance</b>	<b>\$579</b>	<b>\$408</b>	<b>\$624</b>	<b>\$720</b>	<b>\$751</b>
Encumbrances	\$64	\$22	\$105	\$58	\$133

\*Transfers include \$23,562 to the Native Resources and Fire Protection Special Fund, \$59,375 to the Marine Enforcement Special Fund, and \$197,358 to the Natural and Physical Environment fund. Also a \$44,651 transfer was made to and \$100,000 transfer from the Special Land and Development Fund.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was created. The fund was created in 1996 and supports and assists in the long-term sustainability of Hawai‘i’s fisheries through research, outreach, collaboration, and management. Revenue includes fees collected for commercial fishing licenses and permits, licenses and permits for sale of aquatic life, fines, donations, and poster sales. Expenses include partial funding of 13 fishery survey positions, commercial fish species studies, funding for license sales, and miscellaneous supplies.

**Conservation  
and Resources  
Enforcement  
(special fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$5	\$322	\$290	\$216	\$21
Revenues	18	1	0	0	0
Interest	0	0	6	1	0
Expenditures	(1,328)	(1,253)	(1,342)	(1,580)	(1,295)
Transfers*	1,627	1,220	1,262	1,384	1,314
<b>Ending Balance</b>	<b>\$322</b>	<b>\$290</b>	<b>\$216</b>	<b>\$21</b>	<b>\$40</b>
Encumbrances	\$47	\$51	\$95	\$36	\$24

\*Transfers to the fund include \$6,694,439 from the Boating Special Fund, \$300,000 from the Special Land and Development Fund, and \$59,375 from the Commercial Fisheries Special Fund. Transfers from the fund include \$46,788 to the Natural and Physical Environment fund and \$200,000 to the Conservation and Resources Enforcement Special Fund.

This fund continues to meet the purpose for which it was created and meets the criteria of a special fund. The fund was created administratively in 1996, prior to the 2002 enactment of Section 37-52.3, HRS, which requires that special funds be established by an act of the Legislature. The fund helps support marine patrol responsibilities that were transferred from the Department of Public Safety in Act 296, Session Laws of Hawai'i (SLH) 1996. The primary source of money is transfers from the DLNR's Boating Special Fund, though it also received funds from DLNR's Special Land and Development Fund and Commercial Fisheries Special Fund during the review period. Moneys in the fund are used to pay for 18 enforcement officer positions and expenses associated with enforcing boating and ocean recreation rules.

**Conservation  
and Resources  
Enforcement Special  
Fund  
(special fund)**

**Section 199-1.5, HRS**

**Financial Data for Fiscal Years 2011–2013 (in thousands)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$0	\$178
Revenues	0	0	246
Interest	0	0	0
Expenditures	0	(22)	(10)
Transfers*	0	200	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$178</b>	<b>\$414</b>
Encumbrances	\$0	\$0	\$2

\*Transfers in FY2012 received from the Conservation and Resources Enforcement fund.

This fund serves the purpose for which it was created and meets the criteria of a special fund. The fund was created by statute in 2011 to give DLNR's Division of Conservation and Resources Enforcement the ability to accept donations, grants, and awards from private and public sources following cuts in the division's general fund appropriations. The fund's revenues include donations from the Conservation International Foundation and the Harold K. L. Castle Foundation for supporting compliance efforts linked to Hawai'i's marine fisheries resources. The fund will also accept moneys from administrative charges and penalties once DLNR's civil resource penalty system becomes fully functional. Among the fund's current expenditures is the Community Fisheries Enforcement Unit pilot project, which is an attempt to develop a model for deployment across the state.

***Dam and Reservoir  
Safety Special Fund  
(special fund)***

***Section 179D-25, HRS***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$950	\$859	\$955	\$774	\$760
Revenues	1	0	0	27	934
Interest	0	6	0	0	0
Expenditures	(92)	(210)	(181)	(41)	(217)
Transfers*	0	300	0	0	0
<b>Ending Balance</b>	<b>\$859</b>	<b>\$955</b>	<b>\$774</b>	<b>\$760</b>	<b>\$1,477</b>
Encumbrances	\$253	\$340	\$220	\$400	\$188

\*Transfer in FY2010 from the Special Land and Development Fund.

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was statutorily created in 2007 by the Legislature to help support the state's Dam and Reservoir Safety Program, which oversees dams and reservoirs in the state. The general fund provided \$1 million of seed money to start the fund, along with a \$300,000 transfer from DLNR's Special Land and Development Fund prior to administrative rules going into effect in FY2012 that allows the program to charge fees and fines. Moneys in the fund are used for monitoring, inspection, and enforcement purposes as well as information dissemination, training, and research.

***Donations, Gifts, and  
Grants from Private  
and Governmental  
Entities  
(trust account)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$3,012	\$7,304	\$5,545	\$11,971	\$3,816
Revenues	4,858	1,584	8,914	1,255	3,163
Interest	68	56	99	64	16
Expenditures	(634)	(3,398)	(2,587)	(1,158)	(1,115)
Transfers*	0	(1)	0	(8,316)	0
<b>Ending Balance</b>	<b>\$7,304</b>	<b>\$5,545</b>	<b>\$11,971</b>	<b>\$3,816</b>	<b>\$5,880</b>
Encumbrances	\$869	\$314	\$603	\$920	\$543

\*Transfers are composed of \$700 to the Kaho'olawe Rehabilitation Trust Fund and \$8,316,014 to the In-Lieu Fee Mitigation Program.

This account continues to serve the purpose for which it was created and meets the criteria of a trust account. The account, previously known as the Temporary Deposits—Water Development trust account, was administratively created and holds donations, gifts, and grants from private entities and spent for specific purposes. It is also used to account for receipts for miscellaneous temporary project expenditures.

***Endangered Species  
Trust Fund  
(special fund)***

***Act 380, SLH 1997***

**Financial Data for Fiscal Year 2009 (in thousands)**

	<b>FY2009</b>
Beginning Balance	\$9
Revenues	0
Interest	0
Expenditures	(9)
Transfers	0
<b>Ending Balance</b>	<b>\$0</b>
Encumbrances	\$0

This special fund, which was created by Act 380, SLH 1997, was closed in FY2009. Thereafter, Act 144 (SLH 2004) amended the law to remove the term “special fund” and insert “trust fund” in its place. The department created a trust fund with the same name in FY2005 and closed this special fund in FY2009.

**Endangered Species  
Trust Fund  
(trust fund)**

**Section 195D-31, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$635	\$598	\$514	\$685	\$1,956
Revenues	179	91	314	2,606	1,459
Interest	11	7	9	10	4
Expenditures	(227)	(182)	(152)	(1,345)	(1,240)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$598</b>	<b>\$514</b>	<b>\$685</b>	<b>\$1,956</b>	<b>\$2,179</b>
Encumbrances	\$131	\$19	\$193	\$608	\$1,455

This fund continues to serve the purpose for which it was created and meets the criteria of a trust fund. The fund was created by Act 144, SLH 2004, and replaced a similarly named special fund that had been established in 1997. The fund provides for the protection and management of native and endangered species. Program activities include surveys and monitoring; assessment and mitigation of threats; and preparation and implementation of habitat conservation plans and safe harbor agreements. It also provides incentives for private landowners to recover and protect threatened and endangered species. Revenues consist of deposits for implementation of habitat conservation plans, safe harbor agreements, donations, and proceeds from the sale of environmentally-themed products such as endangered species stamps, posters, and books.

**Forest and Wildlife  
Resources  
(special fund)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$1,765	\$2,437	\$2,262	\$2,411	\$2,377
Revenues	2	0	0	1	1
Interest	59	44	43	16	9
Expenditures	(2,636)	(2,833)	(1,936)	(2,932)	(3,015)
Transfers*	3,247	2,614	2,042	2,881	3,840
<b>Ending Balance</b>	<b>\$2,437</b>	<b>\$2,262</b>	<b>\$2,411</b>	<b>\$2,377</b>	<b>\$3,212</b>
Encumbrances	\$2,350	\$1,758	\$2,380	\$2,340	\$2,608

\*Transfers in are composed of \$4,925,000 from the Special Land and Development Fund, \$9,030,000 from the Natural Area Reserve Fund, \$1,180,000 from the Land Conservation Fund, and \$23,562 from the Commercial Fisheries Special Fund. Transfers out are composed of \$39,048 to the Natural and Physical Environment account, \$400,000 to the Forest Stewardship Fund, and net transfers out of \$95,000 to the Department of Agriculture.

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was established administratively prior to the 2002 passage of Section 37-52.3, HRS, requiring that special funds be established by an act of the Legislature. Fund money supports the state's invasive species control and management efforts, as well as those for endangered species and for wildland fire prevention and suppression. The fund does not charge fees and does not have a direct source of revenue, but receives transfers from other DLNR special funds to cover expenditures and maintain fund balances.

**Forest Stewardship  
Fund  
(special fund)**

**Section 195F-4, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$4,492	\$4,078	\$2,845	\$2,662	\$2,654
Revenues	618	638	188	756	732
Interest	82	42	0	0	0
Expenditures	(3,478)	(2,812)	(2,210)	(2,263)	(2,701)
Transfers*	2,364	899	1,839	1,499	2,047
<b>Ending Balance</b>	<b>\$4,078</b>	<b>\$2,845</b>	<b>\$2,662</b>	<b>\$2,654</b>	<b>\$2,732</b>
Encumbrances	\$1,368	\$842	\$1,049	\$769	\$1,860

\*Transfers in are composed of \$7,065,600 from the Natural Area Reserve Fund, \$1,200,000 from the Special Land and Development Fund, \$400,000 from the Forest and Wildlife Resources fund, \$2,926 from the Recreational Renaissance—Forestry fund, along with transfers out totaling \$20,661 to the Natural and Physical Environment fund.

This fund continues to serve the purpose for which it was created and partially meets the criteria of a special fund. The fund was created by statute in 1991 to support the Forest Stewardship Program, which assists private landowners in managing, protecting, and restoring watersheds, native vegetation, timber resources, habitats, rare and endangered plants, and other lands. The fund's main source of revenue is transfers from the Natural Area Reserve Fund, which is supported by the state's tax on land transfers and conveyances. Only partial linkage exists between the landowners who pay the tax and the beneficiaries of the Forest Stewardship Program, the people of Hawai'i. The fund also does not have a clear link between its sources of revenue and the program it supports, because conveyance taxes are not directly linked to the Forest Stewardship Program. However, the Legislature's view, as expressed in Act 156, SLH 2005, is that the conveyance tax is an appropriate means of funding the Forest Stewardship Program. The Legislature determined there was a nexus between the conveyance tax and natural resource preservation programs, because the development, sale, and improvement of real estate adds pressure to the state's natural areas, coastal access, agricultural production, and water resources. In addition, the fund may not be self-sustaining, since annual fund transfers, revenues, and interest were not enough to cover expenditures in four of the five years reviewed. The fund has been able to absorb the expenditures because of its existing balance, which was \$2.7 million at the end of FY2013.

***Hawai'i Historic  
Preservation Special  
Fund  
(special fund)***

***Section 6E-16, HRS***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$15	\$13	\$43	\$49	\$96
Revenues	52	54	49	52	45
Interest	0	0	0	0	0
Expenditures	(93)	(73)	(42)	(4)	(76)
Transfers*	39	49	(1)	(1)	(1)
<b>Ending Balance</b>	<b>\$13</b>	<b>\$43</b>	<b>\$49</b>	<b>\$96</b>	<b>\$64</b>
Encumbrances	\$0	\$28	\$0	\$0	\$0

\*Transfers include \$90,320 from the Special Land and Development Fund and \$4,019 to the Natural and Physical Environment fund.

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was created statutorily in 1989 and helps support the State's Historic Preservation Program. The fund's main sources of revenue are permit and report review fees, and fines and penalties. It also may receive legislative appropriations and gifts, donations, and grants. Moneys are spent on temporary staff, production of information materials, and for administrative and operating costs.

***Infrastructure  
Development Fund  
(special fund)***

***Section 171-19.5, HRS***

**Financial Data for Fiscal Years 2009–2011 (in thousands)**

	FY2009	FY2010	FY2011
Beginning Balance	\$255	\$0	\$45
Revenues	0	43	0
Interest	5	2	0
Expenditures	(260)	0	0
Transfers*	0	0	(45)
<b>Ending Balance</b>	<b>\$0</b>	<b>\$45</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0

\*Transfer of remaining balance to the Kīkala-Kēōkea Housing Revolving Fund.

This special fund was closed in FY2011. The fund was created in 2001 to help Kalapana residents who lost homes and lands as a result

of volcanic eruptions. The fund was allowed to accept deposits of legislative appropriations and DLNR moneys and was to transfer any unexpended or unencumbered funds to the Hawai‘i Housing Finance Development Corporation’s Kīkala-Kēōkea Housing Revolving Fund once design and construction of infrastructure improvements were completed. The fund was closed on January 31, 2011, after the remaining balance was transferred to the Kīkala-Kēōkea Housing Revolving Fund.

***In-Lieu Fee Mitigation Program (trust account)***

***Administratively established***

**Financial Data for Fiscal Years 2012–2013 (in thousands)**

	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$8,316
Revenues	0	0
Interest	0	17
Expenditures	0	(53)
Transfers*	8,316	0
<b>Ending Balance</b>	<b>\$8,316</b>	<b>\$8,280</b>
Encumbrances	\$0	\$639

\*Transfer came from the Donations, Gifts, and Grants from Private and Governmental Entities account.

This account serves the purpose for which it was created and meets the criteria of a trust account. The account was created in 2012 to meet federal requirements for in-lieu fee programs, which support the restoration, establishment, enhancement, and preservation of aquatic resources. The account received money from settlements involving aquatic damage that had been deposited in the Donations, Gifts, and Grants from Private and Government Entities trust account. This includes a \$7.5 million federal government settlement for damages from the *USS Port Royal* grounding.

**Kaho‘olawe  
Rehabilitation Trust  
Fund  
(trust fund)**

**Section 6K-9.5, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$20,218	\$16,505	\$13,474	\$10,729	\$8,143
Revenues	431	175	131	152	80
Interest	360	211	246	53	20
Expenditures	(4,504)	(3,418)	(3,122)	(2,791)	(2,668)
Transfers*	0	1	0	0	0
<b>Ending Balance</b>	<b>\$16,505</b>	<b>\$13,474</b>	<b>\$10,729</b>	<b>\$8,143</b>	<b>\$5,575</b>
Encumbrances	\$1,565	\$1,356	\$1,180	\$1,674	\$1,849

\*Transfer composed of \$700 from the Donations, Gifts, and Grants from Private and Governmental Entities account.

This fund continues to serve the purpose for which it was created and meets the criteria of a trust fund. However, the fund’s capacity to remain financially self-sustaining beyond FY2016 is questionable, since the Kaho‘olawe Island Reserve Commission has not yet secured funding sources sufficient to provide for the continued restoration and management of the Kaho‘olawe Island Reserve. The trust fund was statutorily established in 1994 to receive funds for the rehabilitation and environmental restoration of Kaho‘olawe. From 1995 until 2004, the fund received more than \$44 million in federal money. Additionally, moneys received from grants and donations as well as interest earnings have been deposited to the fund. Fund moneys are used to carry out the purposes of Chapter 6K, HRS, including hiring employees, specialists, and consultants to complete rehabilitation and environmental restoration projects.

**Land Conservation  
Fund  
(special fund)**

**Section 173A-5, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$12,131	\$8,002	\$10,571	\$10,174	\$9,978
Revenues	2,392	4,076	4,796	4,341	5,464
Interest	202	85	0	0	0
Expenditures	(6,723)	(1,592)	(3,793)	(3,747)	(4,217)
Transfers*	0	0	(1,400)	(790)	(636)
<b>Ending Balance</b>	<b>\$8,002</b>	<b>\$10,571</b>	<b>\$10,174</b>	<b>\$9,978</b>	<b>\$10,589</b>
Encumbrances	\$4,572	\$6,572	\$7,674	\$7,993	\$7,245

\*Transfers from the fund include \$1,180,000 to the Native Resources and Fire Protection Fund, \$1 million to the general fund; \$427,300 to the Public Land Development Corporation fund, and \$298,000 to Public Land Trust Inventory and Information System account. Transfers into the fund were \$78,904 from the Public Land Development Corporation fund.

This fund continues to serve the purpose for which it was created and partially meets the criteria of a special fund. The fund was created in 2005 to provide help with the acquisition of land and conservation easements for the protection of natural, agricultural, recreational, cultural, and historic resources. The fund's primary source of revenue is 10 percent of the State's conveyance tax, although it may also receive proceeds from the sale of general obligation bonds and proceeds from land sales, leases, and operations. Expenses include grants made to State, county, and non-profit entities to buy land or conservation easements as well as employee salaries and other costs for the operation of the Legacy Land Conservation Commission.

The fund's law was amended in 2011 to provide \$135,500 of annual funding for the Public Land Development Corporation (PLDC) but the PLDC law was repealed in 2013 after public outcry. We note the conveyance tax is levied on land transfers or conveyances, and provides revenue for the fund, which benefits the public as a whole, including the subset who pay the tax. In this regard, only a partial nexus exists between fund benefits and charges made upon program beneficiaries. In addition, the fund does not have a clear link between its sources of revenue and the program it supports, since conveyance taxes have no direct link with the program. The Legislature's view on this issue as stated in Act 156, SLH 2005, is that a nexus exists between the conveyance tax and natural resource preservation programs because the development, sale, and improvement of real estate adds pressure to the state's natural areas, coastal access, agricultural production, and water resources.

**Land Division—Water  
Monitoring Service  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$29	\$35	\$39	\$8	\$9
Revenues	35	47	15	17	17
Interest	0	0	0	0	0
Expenditures	(29)	(43)	(46)	(16)	(17)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$35</b>	<b>\$39</b>	<b>\$8</b>	<b>\$9</b>	<b>\$9</b>
Encumbrances	\$20	\$24	\$8	\$8	\$9

This account does not meet the criteria of a trust account because it does not serve the purpose for which it was originally created. The account was administratively established to receive donations from sugar plantation subsidiaries and pay for the operation and maintenance of sugarcane irrigation stations. However, no donations, gifts, or grants have been made to this account in decades. Instead, since 1999 it has been used as a clearing account for private parties to obtain and pay for steam gauging services rendered by the U.S. Geological Survey. Because the Geological Survey cannot enter into agreements or contracts with private parties, it bills the State, which in turn charges private parties for services. In FY2011, the department acknowledged the current purpose of the account by changing the name to its current title.

***Nā Ala Hele Special Fund***  
***(special fund)***

***Administratively established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$832	\$803	\$873	\$782	\$574
Revenues	417	396	413	421	413
Interest	15	9	15	4	2
Expenditures	(460)	(432)	(517)	(660)	(543)
Transfers*	(1)	97	(2)	27	(3)
<b>Ending Balance</b>	<b>\$803</b>	<b>\$873</b>	<b>\$782</b>	<b>\$574</b>	<b>\$443</b>
Encumbrances	\$8	\$43	\$186	\$30	\$82

\*Transfers in are composed of \$100,000 from the Special Land and Development Fund and \$29,399 from the Recreational Renaissance—Forestry fund. Transfers out are composed of \$11,400 to the Natural and Physical Environment fund.

This fund meets the purpose for which it was created, but only partially meets criteria for a special fund. The fund was created administratively in 1997, prior to the 2002 enactment of Section 37-52.3, HRS, which requires that special funds be established by an act of the Legislature, and after passage of Act 106, SLH 1997, which directed that a portion of the State's highway fuel tax be dedicated to managing, maintaining, and developing of trails and trail access. The fund's revenue sources include 0.3 percent of the highway fuel tax up to \$250,000, private contributions, fees paid for commercial use of trails, and a portion of the transient accommodation tax.

A partial nexus exists between the revenue sources and benefits provided because there appears to be no direct link between paying highway fuel taxes and benefits from the State's managing, maintaining, and developing trails and trail access. Not everyone who is taxed on gasoline, diesel, and other liquid fuel consumption uses the statewide trail system. The fund also does not have a clear link between its sources of revenue and the program the fund supports, because highway fuel taxes have no direct link with the program. However, there is a nexus between fees and contributions collected for the trail program and the portion of the transient accommodation tax that is earmarked for spending as guided by a master plan developed in coordination with the Hawai'i Tourism Authority.

***Native Resources  
and Fire Protection  
Program  
(trust fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2012–2013 (in thousands)**

	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$0
Revenues	0	22
Interest	0	0
Expenditures	0	0
Transfers	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$22</b>
Encumbrances	\$0	\$0

This fund serves the purpose for which it was created and meets the criteria of a trust fund. The fund was created administratively in 2012 to support two staff positions. Deposits consist of fees charged for monitoring compliance under Habitat Conservation Plans and are to be used to create two positions when sufficient moneys are accrued.

***Natural and Physical  
Environment  
(special fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$293	\$392	\$498	\$492	\$638
Revenues	0	53	28	42	44
Interest	8	6	12	4	3
Expenditures	(474)	(593)	(555)	(658)	(892)
Transfers*	565	640	509	758	867
<b>Ending Balance</b>	<b>\$392</b>	<b>\$498</b>	<b>\$492</b>	<b>\$638</b>	<b>\$660</b>
Encumbrances	\$18	\$0	\$3	\$36	\$11

\*Transfers in are composed of \$46,788 from the Conservation and Resources Enforcement fund, \$36,220 from the Water and Land Development fund, \$11,400 from the Nā Ala Hele Special Fund, \$266,434 from the Bureau of Conveyances Special Fund, \$719,205 from the State Parks Special Fund, \$197,358 from the Commercial Fisheries Special Fund, \$39,048 from the Native Resources and Fire Protection Program fund, \$932,400 from the Special Land and Development Fund, \$4,019 from the Hawai'i Historic Preservation Special Fund, \$747 from the Beach Restoration Fund, \$117,635 from the Water Resource Management Fund, \$530,556 from the Natural Area Reserve Fund, \$20,661 from the Forest Stewardship Fund, \$417,200 from the Boating Special Fund, and \$310 from the Public Land Development Corporation fund.

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was created administratively in 2000 following a legislative appropriation and prior to the 2002 passage of Section 37-52.3, HRS, requiring that special funds be established by an act of the Legislature. The fund currently covers certain special fund risk management costs, staff positions, and operating expenses of the agency's administrative proceedings office. Revenue consists of transfers from other DLNR special funds and administrative fines collected from enforcement activities.

**Natural Area Reserve  
Fund  
(special fund)**

**Section 195-9, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$15,670	\$8,433	\$6,397	\$6,624	\$5,977
Revenues	5,962	8,154	9,596	8,434	13,684
Interest	233	80	0	0	0
Expenditures	(8,497)	(7,773)	(5,846)	(6,071)	(6,993)
Transfers*	(4,935)	(2,497)	(3,523)	(3,010)	(3,151)
<b>Ending Balance</b>	<b>\$8,433</b>	<b>\$6,397</b>	<b>\$6,624</b>	<b>\$5,977</b>	<b>\$9,517</b>
Encumbrances	\$5,442	\$2,833	\$3,091	\$3,859	\$5,183

\*Transfers out are composed of \$500,000 to the general fund; \$530,556 to the Natural and Physical Environment Fund; \$9,030,000 to the Native Resources and Fire Protection fund; and \$7,065,600 to the Forest Stewardship Fund. Transfer in is composed of \$11,046 returned from the Department of Agriculture for unused coqui frog control and eradication funds. Also included is a \$150,000 loan to the Bureau of Conveyances Special Fund in FY2012, which was repaid in FY2013.

This fund continues to serve the purpose for which it was created and partially meets the criteria of a special fund. The fund was statutorily established in 1987 and helps implement the establishment and management of natural area reserves, which are intended to protect and preserve unique natural assets. The fund also supports a program providing state funds for private conservation lands, a heritage program, forest stewardship programs, watershed management, and Youth Conservation Corps. The Hawai'i Invasive Species Council also receives support from the fund through appropriations mandated by the Legislature.

The fund's primary revenue source is 25 percent of the State's conveyance tax, a levy imposed on documents transferring real property ownership or interest based on the transaction amount. In Act 156, SLH 2005, the Legislature expressed that the conveyance tax is an appropriate

means of funding the conservation of natural resources because the development, sale, and improvement of real estate adds pressure to the state’s natural areas, coastal access, agricultural production, and water resources. However, we note the criteria for analyzing special funds require there be a clear nexus between benefits sought and charges made upon program beneficiaries, or that a clear link exist between a program and its sources of revenue. In this case, beneficiaries are the public as a whole, including visitors, but conveyance taxpayers are only a portion of the overall population; because of that, only a partial nexus exists. Additionally, the fund does not have a clear link between its sources of revenue and the program it supports, since conveyance taxes have no direct link with the fund.

**Office of Hawaiian  
Affairs Kīkala-Kēōkea  
Trust Fund  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2012 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
Beginning Balance	\$15	\$6	\$48	\$48
Revenues	1	42	0	0
Interest	0	0	0	0
Expenditures	(10)	0	0	0
Transfers*	0	0	0	(48)
<b>Ending Balance</b>	<b>\$6</b>	<b>\$48</b>	<b>\$48</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0

\*Transfer of remaining balance returned to the Office of Hawaiian Affairs.

Although titled a trust fund, this is really a trust account that was established in FY2002 and closed in FY2012. The account was tied to the DLNR’s Infrastructure Development Fund, which was created in 2001 to help Kalapana residents who lost homes and lands as a result of volcanic eruptions. The initial source of revenue was the Office of Hawaiian Affairs (OHA) for matching moneys designated for infrastructure development. The project was completed in FY2008 and the account’s remaining balance was returned to OHA in December 2011.

**Preservation of Endangered Plants (trust account)**

**Administratively established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$3	\$3	\$2	\$2	\$2
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(1)	0	0	0
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$3</b>	<b>\$2</b>	<b>\$2</b>	<b>\$2</b>	<b>\$2</b>
Encumbrances	\$1	\$0	\$0	\$0	\$0

This account does not serve the purpose for which it was created and does not meet the criteria of a trust account because it is inactive and lacks revenue, raising questions about its capacity to be financially self-sustaining. The account was administratively established in 1989 to account for donations made by the Hawai'i Credit Union League for the preservation of endangered plants and can accept donations and non-federal grants benefiting DLNR's rare plant program. There has been little revenue during the last 15 years and fund balances changed little in the past four years. The department noted that the account has not paid any expenses in the past two years because of a lack of funds and that the purpose of the account is being met by the Forest and Wildlife Resources Fund and the Endangered Species Trust Fund. The department should evaluate the continued need for this account.

**Proceeds From Seizure/Forfeiture of Property (trust fund)**

**Administratively established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$0	\$0	\$0	\$0	\$2
Revenues	0	0	0	2	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(2)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund serves the purpose for which it was created and meets the criteria of a trust fund; however, because of duplication with another fund, the department is taking steps to close it. The fund was created administratively in 2000 to hold proceeds from the sale of perishable natural resources until a suspected violation involving the items is adjudicated. The fund was suspended after its creation because of inactivity but revived after DLNR's Division of Aquatic Resources requested its reactivation. The department acknowledges that creation of the Conservation and Resources Enforcement Special Fund in 2011 makes this fund unnecessary and says it will initiate the fund's closure in FY2014.

**Public Land Trust  
Funds, Ceded Land  
Proceeds—O'ahu,  
Maui, Hawai'i, Kaua'i  
(trust fund)**

**Section 171-18, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$0	\$0	\$0	\$0	\$374
Revenues	2,675	2,406	2,531	3,946	3,242
Interest	0	0	0	0	0
Expenditures	(2,675)	(2,406)	(2,531)	(3,572)	(3,616)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$374</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

The financial data presented above combines four trust funds—one for each of the major Hawaiian Islands. These funds continue to serve the purpose for which they were created and meet the criteria for trust funds. These funds were established in 1962 to account for proceeds and income from the sale, lease, or other disposition of ceded lands. Revenues are held in trust for the support of public schools and other educational institutions; betterment of the conditions of native Hawaiians; development of farm and home ownership; public improvements; and the provision of lands for public use. Section 10-13.5, HRS, requires that 20 percent of income from public land trusts be expended by the Office of Hawaiian Affairs. The funds are used as temporary holding accounts to transfer revenues to OHA.

***Salvinia Molesta  
Removal  
(revolving fund)***

***Administratively  
established***

**Financial Data for Fiscal Years 2009–2011 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
Beginning Balance	\$89	\$0	\$1
Revenues	0	1	0
Interest	2	0	0
Expenditures	0	0	0
Transfers*	(91)	0	(1)
<b>Ending Balance</b>	<b>\$0</b>	<b>\$1</b>	<b>\$0</b>
Encumbrances	\$0	\$0	\$0

\*Transfer of remaining balance returned to the Department of Health.

This revolving fund was established administratively in FY2003 in violation of Section 37-52.4, HRS, which requires all such funds be established by an act of the Legislature. The fund was created with the transfer of \$500,000 from the Department of Health's Environmental Response Revolving Fund for the purpose of removing an invasive aquatic plant, *Salvinia molesta*, which was covering 95 percent of the surface of Lake Wilson, depleting oxygen, and threatening to kill 500 tons of fish. Substantial eradication was completed in April 2003 and remaining fund balances were transferred back to the Department of Health in FY2011. The fund was closed in FY2011.

**Special Land and  
Development Fund  
(special fund)**

**Section 171-19, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$9,432	\$9,012	\$5,474	\$6,306	\$9,267
Revenues	8,845	6,264	8,716	11,298	13,124
Interest	241	98	0	0	0
Expenditures	(5,124)	(4,861)	(4,929)	(5,115)	(5,904)
Transfers*	(4,382)	(5,039)	(2,955)	(3,222)	(6,216)
<b>Ending Balance</b>	<b>\$9,012</b>	<b>\$5,474</b>	<b>\$6,306</b>	<b>\$9,267</b>	<b>\$10,271</b>
Encumbrances	\$1,479	\$1,069	\$1,067	\$974	\$1,081

\*Transfers out are composed of \$932,400 to the Natural and Physical Environment fund; \$300,000 to the Conservation and Resources Enforcement fund; \$2,872,132 to the Prevention of Natural Disasters fund; \$1,250,000 to the Department of Accounting and General Services; \$1 million to the general fund; \$1,650,519 to the Water and Land Development fund; \$4,925,000 to the Native Resources and Fire Protection account; \$55,349 to the Commercial Fisheries Special Fund; \$1,704,344 to the Water Resource Management Fund; \$1,200,000 to Forest Stewardship Fund, \$4,434,168 to State Parks Special Fund, \$500,000 to the Flood Study for Makaha fund; \$100,000 to the Nā Ala Hele Special Fund; \$400,000 to the Beach Restoration Special Fund; \$90,320 to the Hawai'i Historic Preservation Special Fund; \$300,000 to the Dam and Reservoir Safety Special Fund; and \$100,000 to the Boating Special Fund.

This fund continues to serve the purpose for which it was created and partially meets the criteria for special funds. The fund was statutorily created in 1962 and today collects proceeds from public land leases, sales, licenses, and permits as well as fees, fines, and other administrative charges included in Chapters 171, HRS (*Management and Disposition of Public Lands*), and 183C, HRS (*Conservation District*), and funds for public trails and access. The department uses the fund to cover the operating budget of its Land Management Division, Office of Conservation and Coastal Lands, a Dam Safety program, and a geothermal program. The fund also helps support the Commission on Water Resource Management, the Division of State Parks, and some of the resource protection programs administered by the Division of Forestry and Wildlife. The fund's law also includes a provision allowing the transfer of excess moneys to the general fund. A partial nexus exists between proceeds from the department's leasing, sale, and fees derived from public lands and the benefits delivered. A nexus exists for lessees and others who receive use of land or a benefit for fees paid; however, there is no nexus for people who do not make any payments yet receive benefits, such as use of a beach restored with fund money. A partial nexus exists for use of revenue from the highway fuel tax and support for the department's statewide trail and trail access program. We also reviewed the fund to determine whether a link exists between the program and its revenues. We concluded only a portion of the fund's revenues met the linkage test.

**Sport Fish Special Fund**  
(special fund)

**Section 187A-9.5, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$96	\$110	\$87	\$89	\$81
Revenues	45	30	20	20	33
Interest	2	1	2	0	0
Expenditures	(33)	(54)	(20)	(28)	(41)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$110</b>	<b>\$87</b>	<b>\$89</b>	<b>\$81</b>	<b>\$73</b>
Encumbrances	\$7	\$0	\$0	\$0	\$3

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was established by statute in 1993 to ensure compliance with the Federal Aid Sport Fish Restoration Act, which provides matching funds for a variety of programs, including restoration and management of fishery resources. Revenues include freshwater fishing licenses, sales of maps and publications, fines, and donations. Expenses include a salary match for a fishery technician supported mostly by federal funds and for supplies. The fund has the capacity to be financially self-supporting, although we note revenue and interest were not enough to cover expenditures in three of the five years reviewed.

**State Parks Special Fund**  
(special fund)

**Section 184-3.4, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$880	\$1,115	\$1,025	\$540	\$1,112
Revenues	2,358	2,194	2,286	3,531	4,090
Interest	58	21	0	0	0
Expenditures	(3,035)	(3,334)	(3,509)	(3,744)	(4,322)
Transfers*	854	1,029	738	785	670
<b>Ending Balance</b>	<b>\$1,115</b>	<b>\$1,025</b>	<b>\$540</b>	<b>\$1,112</b>	<b>\$1,550</b>
Encumbrances	\$371	\$365	\$180	\$524	\$610

\*Transfers out are composed of \$719,205 to the Natural and Physical Environment fund. Transfers in are composed of \$4,434,168 from the Special Land and Development Fund and \$360,191 from the Recreational Renaissance—Parks fund.

This fund serves the purpose for which it was created and meets the criteria of a special fund. The fund was established by statute in 2000 and supplements general fund appropriations for park facilities’ repairs and maintenance, as well as supporting park interpretive programs. Revenues include cabin and property leases, park facility rentals, concession leases, entry and parking fees, camping and lodging fees, and film special activity fees. A related account receives a portion of the transient accommodations tax, which is invested in parks that are visitor destinations. Other uses of fund money include payroll, supplies and equipment, park repair and maintenance, building and land rentals, lifeguard services, and utilities. Annual fund expenditures exceed revenue and interest, but the fund is supplemented by transfers from other department accounts, primarily the Special Land and Development Fund.

**Temporary Deposits  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Beginning Balance	\$1,591	\$1,520	\$1,370	\$1,338	\$1,429
Revenues	318	215	168	267	201
Interest	0	0	0	0	0
Expenditures	(389)	(365)	(200)	(176)	(170)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$1,520</b>	<b>\$1,370</b>	<b>\$1,338</b>	<b>\$1,429</b>	<b>\$1,460</b>
Encumbrances	\$10	\$17	\$33	\$27	\$35

This account continues to serve the purpose for which it was created and meets the criteria of a trust account. The account was established administratively to hold security deposits for leases, permits, and licenses, and for the payment of appraisal fees chargeable to applicants.

**Temporary Deposits—  
Undistributed  
Proceeds  
(trust account)**

**Administratively  
established**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$0	\$0	\$0	\$60	\$297
Revenues	1,927	523	923	1,419	1,175
Interest	0	0	0	1	1
Expenditures	(1,927)	(523)	(863)	(1,183)	(997)
Transfers	0	0	0	0	0
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$60</b>	<b>\$297</b>	<b>\$476</b>
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to serve the purpose for which it was created and meets the criteria of a trust account. The account was created administratively in 1992 and collects revenue from land rental and water licenses managed by the department for other state agencies, including the Departments of Hawaiian Home Lands and Agriculture, along with the Hawai‘i Community Development Authority and the University of Hawai‘i. Money is held in the account until it is transferred to relevant state agencies.

**Water Resource  
Management Fund  
(special fund)**

**Section 174C-5.5, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$1,309	\$1,308	\$1,406	\$1,386	\$1,458
Revenues	72	95	59	60	60
Interest	24	17	25	8	1
Expenditures	(374)	(291)	(383)	(285)	(407)
Transfers*	277	277	279	289	466
<b>Ending Balance</b>	<b>\$1,308</b>	<b>\$1,406</b>	<b>\$1,386</b>	<b>\$1,458</b>	<b>\$1,578</b>
Encumbrances	\$30	\$12	\$12	\$89	\$150

\*Transfers out are composed of \$117,635 to the Natural and Physical Environment fund; transfers in are composed of \$1,704,344 from the Special Land and Development Fund and \$311 from the Water Resources fund.

This fund continues to serve the purpose for which it was created and meets the criteria of a special fund. The fund was statutorily created in 2000 and is administered by the Commission on Water Resource

Management, which implements the State Water Code. Water permit fees, penalties and fines for violations of the water code, sale of water resources-related items, and money from public or private sources for water resource protection and management are among allowed revenue sources. Expenditures support collection and analysis of data, designating water management areas and water use regulation, administering a permitting system, planning, and resolving complaints and disputes. Fund revenues and interest are not enough to cover expenditures, but transfers from DLNR's Special Land and Development Fund make up the difference and help build the fund's balance.

**Wildlife Revolving  
Fund  
(revolving fund)**

**Section 183D-10.5, HRS**

**Financial Data for Fiscal Years 2009–2013 (in thousands)**

	FY2009	FY2010	FY2011	FY2012	FY2013
Beginning Balance	\$10	\$69	\$72	\$68	\$90
Revenues	168	149	146	187	203
Interest	1	1	1	0	0
Expenditures	(196)	(147)	(151)	(165)	(177)
Transfers*	86	0	0	0	0
<b>Ending Balance</b>	<b>\$69</b>	<b>\$72</b>	<b>\$68</b>	<b>\$90</b>	<b>\$116</b>
Encumbrances	\$9	\$11	\$13	\$18	\$51

\*Transfers are composed of \$16,000 in federal grant money for a statewide Hunter Safety Training Program and \$70,000 in federal aid for wildlife restoration.

This fund continues to serve the purpose for which it was created and meets the criteria of a revolving fund. The fund was created statutorily in 1988 and holds fees from hunter licenses, hunter training programs, use of public target ranges, moneys collected for importing, taking or killing of game and wildlife, fines, and sales of articles required in order to hunt. Money is used to meet matching fund requirements for federal grants, enforcement activities, acquisition and maintenance of trails, wildlife research, and public education on wildlife management.

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# Chapter 4

## Observations on Departmental Reporting and Accounting for Funds

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During our review of the special, revolving, and trust funds and trust accounts of the Department of Defense (DOD) and the Department of Land and Natural Resources (DLNR), we noted inconsistent adherence to statutory reporting of financial transactions and balances, resulting in reports that are incomplete or not filed. We also noted that although some funds have been repealed or are no longer active, the appropriation accounts have not been closed and balances remain.

As noted in our Report No. 12-04, *Study of the Transfer of Non-general Funds to the General Fund*, special, revolving, and other types of non-general funds collectively represent about half of the State's operating budget—moneys that are not subject to the same level of legislative scrutiny. Accurate and complete reporting, as well as timely closing of funds, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. This chapter presents our observations regarding those accounting and reporting matters.

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### **Departments Did Not Report All Funds As Required by Law**

Section 37-47, Hawai'i Revised Statutes (HRS), requires departments to submit to the Legislature an annual report of each non-general fund account. These reports, often referred to as non-general fund reports, must include:

1. The name of the fund and a citation of the law authorizing the fund;
2. The intended purpose of the fund;
3. Current program activities that the fund supports;
4. The balance of the fund at the beginning of the current fiscal year;
5. The total amount of expenditures and other outlays from the fund account for the previous fiscal year;
6. The total amount of revenue deposited to the account for the previous fiscal year;
7. A detailed list of all transfers from the fund;

8. The amount of moneys encumbered in the account as of the beginning of the fiscal year;
9. The amount of funds in the account that are required for bond conveyance or other related bond obligations;
10. The amount of moneys in the account derived from bond proceeds; and
11. The amount of moneys of the fund held in certificates of deposit, escrow accounts, or other investments.

We noted that departments did not submit required reports on a number of funds to the 2013 Legislature. The DLNR did not submit a report for one trust fund and the DOD did not file reports for 11 funds (five trust funds and six trust accounts).

Fund reports are one of the primary means through which legislative money committees track non-general funds, monitor fund balances, and identify excess moneys for possible transfer to the general fund. According to the Senate Ways and Means Committee budget chief, there is no master list of non-general funds; the Legislature must compile this information from each non-general fund report. While the departments' failure to submit these reports appears to be inadvertent, we must reiterate the importance of this reporting function.

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## **Departments Are Not Consistent in Reporting Administratively Created Funds**

Section 37-52.5, HRS, requires that, except for the Judiciary, any department that administratively establishes a new fund or account must submit a report to the Legislature. The report, which must be filed within 30 working days of the creation of the fund, must include a statement of justification for the fund or account as well as its sources of revenue. The law also requires, at least 20 days prior to the convening of each regular session, each department to submit reports listing all administratively established funds or accounts along with a statement of revenues, expenditures, encumbrances, and ending balances for each fund or account.

Shortly after enactment of Section 37-52.5, HRS, the state comptroller issued Memorandum No. 2002-35 in October 2002 reminding agency heads as well as departmental administrative and fiscal officers of this reporting requirement. The memorandum noted that departments and agencies are responsible for meeting the requirements beginning July 1, 2002.

We noted inconsistencies in the ways administratively created funds are reported by the departments we reviewed. For instance, the DOD said it does not produce such reports. On the other hand, while the DLNR produces annual reports and posts them on its website, these reports only list the funds created that year. In the ten years of reports we reviewed, only a 2003 report provided a full list of all the department's administratively created funds and accounts. Such informational gaps hinder the Legislature's ability to monitor non-general funds.

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## **Departments Do Not Close Inactive or Terminated Funds Promptly**

On April 26, 2013, the state comptroller asked department heads to review prior-year appropriation accounts in an effort to eliminate those that were no longer active. Comptroller's Memorandum No. 2013-09 requested departments to check prior-year accounts and clear out balances that were no longer required. Under Section 40-67, HRS, the comptroller can close accounts after receiving notification from departments that all outstanding accounts against an appropriation have been paid. The comptroller noted that many old accounts contain cash balances, which should either be returned to the general fund or brought forward to a current-year fiscal account.

However, we noted a number of instances in which funds have been terminated or are no longer active but their accounts have not been closed and idle balances remain, in some cases for an extended period of time. For example, the DLNR's Special Fund Escrow Account was established in 1997 at the direction of the Department of Budget and Finance to hold moneys pending a permanent resolution of ceded lands revenue and income issues. (The account was reviewed but not included in this report because it is merely an account used to separate escrow funds from other special fund moneys and not a special fund.) However, we found the escrow account and two related accounts were idle during the review period yet carried a combined balance of \$567,305. The DLNR said that since so much time had passed with no direction for disposition of the balances, it would try to transfer the money back to the special-funded programs that had generated the revenues.

In another example, the DLNR's Water Resources account had been used to hold moneys for updating the Hawai'i Water Plan and became inactive in 2008. (The account was reviewed but not included in this report as a special fund because it is an administratively established account.) In 2010, the account was consolidated into the Water Resources Management Special Fund. However, the Water Resources appropriation account remained open at the end of FY2013, although it carried no balance.

Departments should be diligent about closing remnant appropriation accounts linked to special and revolving funds, especially if the accounts hold unused funds. Leaving significant amounts of money in idle accounts is an inefficient use of public funds. For example, in Report No. 12-04, *Study of the Transfer of Non-general Funds to the General Fund*, we found that the Department of Transportation's Photo Enforcement Revolving Fund had been repealed by Act 58, SLH 2002, which also mandated that remaining money be transferred to the general fund. However, according to the department, the \$3.46 million remaining balance was transferred in 2012 to the State Highway Fund, which advanced \$5 million to cover contract encumbrance of the enforcement contract.

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## Conclusion

Departments need to improve their reporting and accounting for non-general funds, including special, revolving, and trust funds and trust accounts. This is especially important in light of the State's efforts to unify many of the State's business processes into a government-wide system which will promote efficiency and transparency. In preparation for this effort, departments should identify and eliminate extraneous funds and accounts and ensure that information they present to the Legislature regarding their non-general funds and accounts is accurate and complete so that the new system will be as correct and transparent as possible.

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## Responses of the Affected Agencies

### Comments on Agency Responses

On February 7, 2014, we transmitted a draft of this review to the Department of Defense (DOD) and the Department of Land and Natural Resources (DLNR). A copy of the transmittal letter to DOD is included as Attachment 1. A similar letter was sent to DLNR. Copies of the responses received from the departments are included as Attachments 2 and 3.

The DOD concurred with our conclusions and will review procedures to ensure compliance with reporting requirements.

The DLNR agreed with three of our conclusions, regarding reclassifying one fund, closing an inactive account, and an account that no longer serves its original intent. The department disagreed with, or provided additional information regarding, our conclusions about six special funds that we found had either only partial nexus between benefits sought and user charges or partial linkage between program and revenue sources. The department also disagreed that the Bureau of Conveyances Special Fund no longer serves its original purpose; however, we reported that the fund met its original purpose for the most part, except for its short-term loan of funds to the Natural Area Reserve Fund.

After reviewing the DLNR's response, we maintain that our analyses of the seven special funds in question are appropriate. Hence, we stand by our conclusions.

STATE OF HAWAII  
**OFFICE OF THE AUDITOR**  
465 S. King Street, Room 500  
Honolulu, Hawai'i 96813-2917



**JAN K. YAMANE**  
Acting State Auditor



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

February 7, 2014

**COPY**

The Honorable Darryll D.M. Wong  
Adjutant General  
Department of Defense  
3949 Diamond Head Road  
Honolulu, Hawai'i 96816

Dear Major General Wong:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources*. We ask that you telephone us by Wednesday, February 12, 2014, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit your hard copy response to our office no later than 4:30 p.m. Friday, February 14, 2014.

The Department of Land and Natural Resources, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential 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,

Jan K. Yamane  
Acting State Auditor

Enclosures

NEIL ABERCROMBIE  
GOVERNOR



DARRYLL D. M. WONG  
MAJOR GENERAL  
ADJUTANT GENERAL

JOSEPH K. KIM  
BRIGADIER GENERAL  
DEPUTY ADJUTANT GENERAL

STATE OF HAWAII  
**DEPARTMENT OF DEFENSE**  
**OFFICE OF THE ADJUTANT GENERAL**  
3949 DIAMOND HEAD ROAD  
HONOLULU, HAWAII 96816-4495

February 13, 2014

The Honorable Jan K. Yamane  
Acting State Auditor  
Office of the Auditor  
465 S. King Street, Room 500  
Honolulu, HI 96813

RECEIVED  
2014 FEB 14 PM 1:54  
OFFICE OF THE AUDITOR  
STATE OF HAWAII

Dear Jan Yamane,

After meeting with your auditors and reading your draft report of the Department of Defense's Trust Funds, Trust Accounts, and Special Funds we were made aware of the requirement to report our non-general funds to the State Legislature on an annual basis. Due to this oversight we will review our reporting procedures and ensure that we report our non-general funds to the Department of Budget & Finance in the future.

The Department of Defense will also be implementing your suggestion that we close our "Physical Amelioration – Donation" fund due to it not meeting its intended purpose.

The department will also be reminded to report the creation of any administratively established funds or accounts to the State Legislature at least 20 days prior to the convening of each regular session. We will also include a statement of the revenues, expenditures, encumbrances, and ending balance of each account as required.

DARRYLL D.M. WONG  
Major General  
Hawaii National Guard  
Adjutant General

NEIL ABERCROMBIE  
GOVERNOR OF HAWAII



STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

February 14, 2014

WILLIAM J. AILA, JR.  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
  
ESTHER KIA'AINA  
FIRST DEPUTY  
  
WILLIAM M. TAM  
DEPUTY DIRECTOR - WATER  
  
AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

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2014 FEB 14 AM 11:49

ACTING STATE AUDITOR  
STATE OF HAWAII

Ms. Jan K. Yamane  
Acting State Auditor  
Office of the Auditor  
465 S. King St., Rm. 500  
Honolulu, HI 96813-2917

Dear Ms. Yamane:

Thank you for the opportunity to respond to your report entitled *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense, and Land and Natural Resources*. We have reviewed the draft report and offer the following comments:

Accrued Vacation and Sick Leave Fund:

The Auditor states that this fund does not meet the definition of a revolving fund and a trust fund would be a more appropriate classification.

The Department will pursue a reclassification of this fund to a trust fund subject to approval by the Department of Accounting and General Services.

Boating Special Fund:

The Legislative Auditor agrees that there is a nexus between the user fees and the services that the boaters receive. They also find, however, that boating funds are used to perform services that do not benefit the boaters. Hawaii Revised Statute (HRS) 200-2 provides that the Department has the responsibility for administering the ocean recreation and coastal areas program; however, there is no funding source provided in the law. The Division of Boating and Ocean Recreation has increased its revenue base to accommodate increased ocean recreation by increasing the amount of commercial operators and developing fast lands under its jurisdiction.

In addition, HRS, Section 200-3, identifies the ocean recreation and coastal areas program that the Department is required to implement and it includes developing and administering an ocean recreation management plan which is currently in place. HRS, Section 200-8, identifies the costs that the Boating program is required to pay and it includes a comprehensive statewide boating program and costs are not limited to the small boat harbors.

Bureau of Conveyances Special Fund:

The Department strongly disagrees with the Auditor's comment that the Bureau of Conveyances Special Fund no longer serves its original purpose.

Since it was created by HRS 502-8 in 1999, the Bureau of Conveyances Special Fund has continued to meet the mission of supporting the operations and improvements of the Bureau. In fiscal year 2012, the Bureau loaned \$150,000 to the Natural Area Reserve Fund to address a temporary cash flow shortage. The loan was repaid within the year. Since then, there have been no loans in or out of the special fund, nor is there an intention to do so in the future.

Forest Stewardship Fund:

The Auditor report states “Only partial linkage exists between the landowners who pay the tax and the beneficiaries of the Forest Stewardship Program (FSP), the people of Hawaii. The Fund also does not have a clear link between its sources of revenue and the program it supports, because conveyance taxes are not directly linked to the FSP. The Fund may not be self-sustaining, since annual fund transfers, revenues, and interest were not enough to cover expenditures in four of the five years reviewed.”

The Department strongly disagrees with the Auditor's comments. The Legislature determined there was a nexus between the conveyance tax and natural resource preservation programs, because the development, sale and improvement of real estate adds pressure to the state's natural areas, coastal access, and agricultural production and water resources. In addition, protected natural resources increase property values. The Legislature's view, as expressed in Act 156, SLH 2005, is that the conveyance tax is an appropriate means of funding the forest stewardship programs that assist private landowners in managing important natural resources.

The Forest Stewardship Fund strives to combine the conveyance tax funding with state land revenues, and private landowner funds to improve and maintain natural resource ecosystem services that benefit everyone. For instance, the FSP funds management of the approximately 700,000-acre public Forest Reserve System provides watershed and native ecosystems and species protection, as well as numerous recreational and hunting opportunities.

Via Act 156, SLH 2005, the Legislature has determined that the development, sale, and improvement of real estate in Hawaii adds additional pressure on natural areas, coastal access, agricultural production, and Hawaii's water resources and watershed recharge areas. For instance, development increases water usage. In turn, a primary limiting factor in the development of real estate in Hawaii is water availability. Hawaii's water supplies depend on the health of upland native forests. These forests capture and absorb rain and can increase groundwater supply by up to 50%. Protecting upland forest watersheds is the most cost effective and efficient way to absorb rainwater and replenish groundwater. In addition to expending water supplies, real estate development and sale can encroach upon or impact Hawaii's remaining natural areas including the State Forest Reserves. The FSF programs seek to mitigate these direct effects, with additional benefits to overall economic health and quality of life for visitors and residents. This broader section of society contributes to the FSF as conveyance tax costs are transferred from landowners

to all those utilizing the real estate, such as renters, hotel occupants, business tenants and consumers.

The FSF is financially self-sustaining via statutorily authorized transfers from the Natural Area Reserve Fund.

Land Conservation Fund:

The Department strongly disagrees with the Auditor's report stating "No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources. There is a partial nexus between the benefits sought and charges made upon the program users and beneficiaries."

Act 156, SLH 2005, states that "The Legislature has already determined that the conveyance tax is an appropriate means to fund the conservation of natural resources by dedicating a portion of the current assessment to the natural area partnership program and forest stewardship program that assist private landowners in managing important natural resources.

The Legislature has also determined that there is clear a nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs. The development, sale, and improvement of real estate in Hawaii adds pressure on natural areas, coastal access, agricultural production, and Hawaii's water resources and watershed recharge areas". In addition, this program protects open space and natural resources, which increase property values and provides a direct nexus to real estate.

Pursuant to HRS §173A-5, the Land Conservation Fund (LCF) shall be used for the acquisition of interests or rights in land having value as a resource to the State including watershed protection, parks, coastal areas, beaches, and ocean access, natural areas, habitat protection, agricultural production, cultural and historical sites, open spaces and scenic resources, and recreational and public hunting areas.

Many of Hawaii's cultural, natural, agricultural, historical, and recreational resources are lost when private lands possessing these resources are sold and developed. The Legacy Land Conservation Program (LLCP) provides funding from the LCF, which provides grants to local organizations and agencies seeking to purchase and protect lands having these unique and rare valuable resources. The LLCP seeks to mitigate these direct effects, with additional benefits to overall economic health and quality of life for visitors and residents. This broader section of society contributes to the LCF as conveyance tax costs are transferred from landowners to all those utilizing the real estate, such as renters, hotel occupants, business tenants and consumers.

Land Division – Water Monitoring Service:

The Department agrees with the Auditor that this account does not serve its original intent. However it still fulfills the purpose of a trust account for current transactions as reflected in the current title.

Na Ala Hele Special Fund:

The Auditor states that, “A partial nexus exists between the revenue sources and benefits provided because there appears to be no direct link between paying highway fuel taxes and benefits from the State’s managing, maintaining, and developing trails and trail access. Not everyone who is taxed on gasoline, diesel, and other liquid fuel consumption uses the statewide trail system.”

This statement would be correct if the Na Ala Hele Trail and Access Program only managed trails for pedestrian use. But, this program also includes access to the Department’s outdoor recreation areas. The benefits of the fuel tax provide access and maintenance of non-paved roads to the Department’s public hunting areas, etc. and off-road highway vehicles venues on Hawaii and Oahu Counties. These vehicle types are widely popular on the Department’s managed areas, where the fuel tax is used to fund the maintenance of its outdoor recreation venues across the State.

Natural Area Reserve Fund:

The Auditor’s report states “No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources. There is a partial nexus between the benefits sought and charges made upon the program users and beneficiaries.”

The Department strongly disagrees with the Auditor’s comments. Pursuant to HRS §195-9, the Natural Area Reserve Fund’s (NARF) purpose is to protect and preserve Hawaii’s unique natural resources by supporting programs of Chapter 195. Pursuant to HRS 247-7, 25% of conveyance tax revenues shall be expended on the Natural Area Partnership and Forest Stewardship Programs, the Natural Area Reserve System, watershed protection and management, and the Youth Conservation Corps. These programs support active land management, including defending important conservation areas against threats from development and invasive species and also by restoring these areas by planting native species and monitoring recovery.

The Legislature, via Act 156, SLH 2005, has determined that the development, sale, and improvement of real estate in Hawaii adds additional pressure on natural areas, coastal access, agricultural production, and Hawaii’s water resources and watershed recharge areas. For instance, development increases water usage. In turn, a primary limiting factor in the development of real estate in Hawaii is water availability. Hawaii’s water supplies depend on the health of upland native forests. These forests capture and absorb rain and can increase groundwater supply by up to 50%. Protecting upland forest watersheds is the most cost effective and efficient way to absorb rainwater and replenish groundwater. In addition to expending water supplies, real estate development and sale can encroach upon or impact Hawaii’s remaining natural areas and geological features, as well as other natural resources. NARF programs seek to mitigate these direct effects, with additional benefits to overall economic health and quality of life for visitors and residents. Although the Department recognizes that non-residents will derive some benefit from the protection and promotion of the natural resources and watershed areas, these benefits are temporary and intermittent. Sustained and long-term benefit will be experienced by the residents of Hawaii who live and work here. Not only do residents benefit from the

enhancement of the natural resources that is produced by the NARF, property values increase as a result of the improvement of Hawaii's natural resources.

The Legislature determined that there is a clear nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs.

Preservation of Endangered Plants:

The Department agrees with the Auditor's comments and will close this account.

Special Land and Development Fund:

The Auditor states there is no clear nexus between benefits sought and user charges or a clear link between the program and revenue sources.

The Department respectfully disagrees with these comments. Section 171-19, Hawaii Revised Statutes, mandates that "all rents from leases, licenses, and permits derived from public lands" collected under Chapters 171 and 183C, Hawaii Revised Statutes, shall be deposited into the Special Land Development Fund and may be used for the planning, development, management operations, or maintenance of all lands and improvements under the control and management of the Board, including submerged lands. Thus, the statute clearly authorizes the use of funds for the benefit of the general public, even those who do not pay directly into the fund. As State lands are held in trust, the public, as beneficiaries, must receive a benefit from the revenues generated from the use of public lands.

There is a nexus between the members of the general public that do not make payments into the funds, but receive a benefit. By funding natural resource protection and preservation programs, the public benefits socially, culturally and economically from the use of lands held in trust by the State for the benefit of the public. Supporting state parks and the protection of coastal resources provides open space, recreational and cultural opportunities. Funding for management of the State's forest reserves and water resources helps to ensure a sufficient water supply to meet the diverse needs of the State's increasing population. Subsidizing dam safety and public land maintenance programs addresses important public safety issues. In sum, it is not only individual members of the general public that benefit, but these actions help to maintain the State's economic viability as a desired locale for both residents and visitors alike.

Again, we appreciate the opportunity to review and comment on your draft report. If you have any questions, please contact me at 587-0401.

Sincerely,



William J. Aila, Jr.  
Chairperson