

OVERVIEW

THE AUDITOR
STATE OF HAWAII

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

Summary

In Act 240, the Legislature directed the auditor to evaluate all special and revolving funds existing as of July 1, 1990, and to review legislation proposing new funds. Special and revolving funds are financing mechanisms created outside the general fund to support specific programs and activities. The Legislature voiced its concern about the growing numbers of these funds and their effect on the fiscal integrity of the State.

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

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

We used two criteria provided by Act 240--whether the fund continues to serve the purpose for which it was originally created and whether it reflects a clear link between the benefit sought and charges made upon the beneficiaries of the program. To these we added a third--that the fund demonstrate the capacity to be financially self-sustaining.

Recommendations and Response

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 Of the department's twelve funds, we recommended that seven be repealed, three continued, and two modified.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

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 Of the department's nine funds, we recommended that three be repealed and six continued.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

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 Of the department's four funds, we recommended that three be repealed and one continued.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

Background

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

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

Office of the Auditor
State of Hawaii
465 South King Street, Suite 500
Honolulu, Hawaii 96813
(808) 548-2450
FAX (808) 548-2693