

Exposing Hawaii's Special Funds: Excess Balances of \$1.4 Billion Raid Hawaii's Taxpayers

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### Summary

In the last three years, nearly all fifty states saw government budgets operating in the red as a result of the global economic crisis. The fallout of the meltdown gained considerable notoriety in Hawaii as the determination was made to compensate for the revenue shortfall in part by implementing a temporary furlough of Department of Education personnel. The Hawaii State Legislature, faced with mounting public opposition to “Furlough Fridays” and insufficient revenues to maintain current levels of spending, considered a variety of funding mechanisms, one of which included the use of raiding funds designated on state budget worksheets as “B” means of financing (MOFs), or “special funds,” as it was believed that a number of these accounts were either in excess of their operational requirements or funded mandates which had sunset. Both the decision to raid special funds and the revelation that several may have excess balances or be obsolete provokes one to ask, “Just how many special funds are there, and what is their total in excess balances?” This paper aims to create a starting point for answering that question and to provoke policymakers and taxpayers alike to support a complete audit and publication of all Hawaii State funds – not just special funds – for the purposes of transparency and accountability in government. It also provides a policy option for legislators to find available monies that could potentially be returned to all taxpayers in the State of Hawaii in the form of a refund.

### Background

During the 2009 Regular Session of the 25<sup>th</sup> Legislature of the State of Hawaii, the Senate Committee on Ways and Means amended House Bill No. 39 HD1 Relating to State Revenues to be a vehicle for permitting government expenses to be paid by allowing several types of funds – chief of which were special funds – to be assessed and if necessary, raided. The bill granted authority with the following mandate:

“The director of finance may invest any moneys of the State which in the director’s judgment are in excess of the amounts necessary for meeting the immediate requirements of the State and where in the director’s judgment the action will not impede or hamper the necessary financial operations of the State” (Section 6, HD1 SD1).

A special fund, in short, is a pool for revenues which have been set aside for a predetermined, often niche government purpose. Special funds can be funded through numerous ways, the most traditional of which typically include fees on government services such as licenses; assessments for certified copies of documents; taxation; seizure of funds; interdepartmental transfers or appropriation by the Legislature. The most recent publicly known official audit of the State of Hawaii’s special funds was conducted in 1992 and later revised in 2001 when the legislative auditor was tasked to review which funds should be terminated. Approximately 132 special funds were identified in that report, and several were tagged by the auditor for repeal. Since then, public knowledge about the state’s special fund situation has been limited at best. The total number of special funds and their balances has not been easy for taxpayers to acquire as there is no central point of information where an individual can look at a single balance sheet and see the full financial perspective in a simplified manner. While state

departments have published reports, the information is cryptic, scattered and most figures are estimates rather than exact cash-on-hand disclosures.

Furthermore, the notion that special funds, established by legal mandate to pay for a stated thing “X”, could be legitimately garnered by the subjective decision of a single politically appointed administrator to pay for another thing “Y” challenges the traditional American understanding that the purpose of a Legislature is to control the “power of the purse” and to ensure, in light of the Founding Fathers’ objections, that taxation without representation never occurs.

The advancement of the Legislature into these murky policy areas has several questions: how many special funds are there, how much are they worth and if the Legislature was willing to allow the funds to be raided to pay for more government, why not simply return the full balance of those excess funds to taxpayers at a time when most are seeing economic hardship?

### Scope and Methodology

In order to develop a preliminary situational appraisal for the State's special funds, it was first necessary to obtain official government records, identify special funds and their balances (or estimated balances) and then catalog each one. Grassroot Institute staff acquired the State's most recent financial documents, the "Reports on Non-General Fund Information: Fiscal Years 2006 – 2012," which were made available through the Department of Budget and Finance and included some 21 individual departmental reports ranging from the Department of Agriculture all the way down to the University of Hawaii.

These 21 reports included financial data on various revolving, trust, federal and special funds, but for the purpose of this paper, the authors placed attention only on funds identified by the designator of "B" means of financing (special funds). The authors developed a database containing the name of each special fund, its legal mandate for origin, a short abstract of its purpose, its state account number and budget structure identification number, the name of its administrative officer and contact phone number, the beginning and ending Fiscal Year 2010 balances of the fund, revenues received and expenditures made, and appropriations ceilings. The authors then used the data to create department-by-department summaries of excess balances and a total statewide summary of all the departments. A simple equation that divided the total excess balances of the special funds by the number of all reported persons living in the State of Hawaii ( $N=1,295,178$ )<sup>1</sup> produced the per capita value of the combined excess values. It is important to note that as of the writing of this paper, there are also new special funds freshly mandated by the Hawaii State Legislature during the 2010 Regular Session that are not a part of this report.

### Findings

After a thorough review of the 20 department reports, our researchers revealed 186 accounts identified as special funds and a combined excess balance of \$1,412,357,203 in unspent special funds. Divided equally among the population (N=1,295,178) the excess balances have a per capita refund value of \$1,090.47.

The Department of Defense and Hawaii Public Housing Authority were reported as having no special funds; among the remaining departments, the Department of Human Resources Development, Department of Human Services and Hawaii Health Systems Corporation had the fewest number of special funds, with only one each. The highest concentrations of special funds were located in the University of Hawaii (50), the Department of Health (25) and the Department of Land and Natural Resources (24).

In aggregate, the Department of Transportation had \$582,449,161 reported as unspent, making it the largest department by excess, with the Hawaii Health Systems Corporation as the smallest with \$34,837. A number of funds that the auditor advised to be repealed and their balances lapsed, however, continue to remain. One such example is the Works of Art Special Fund (HRS 103-8.5, account number S-XX-319-M) which, funded by a 1% assessment on capital improvement projects for the purpose of aesthetic improvements and art education for the public, is reported to have at least \$6,968,895 by the end of FY2010. Another example is the Agricultural Park Special Fund (HRS 166-10, account number S-327-A) which has \$0 balance and has not collected any funds since 1999.

The University of Hawaii listed three (3) special funds that the 2001 audit recommended for repeal: the Laboratory Animal Service Special Fund (HRS 304A-2157, account number S-307), the Lab School Cafeteria Special Fund (HRS 304A-2157, account number S-306/S-375),

and the Malpractice Reserve Fund (HRS 304A-2152, account number DAGS S-306-F). Those funds have a collective total of \$3,059,555.

## Statewide Department Summaries

Department	No. of Funds	Unspent Balances
Attorney General	2	\$2,948,421
Accounting and General Services	5	\$36,396,454
Agriculture	9	\$8,614,957
Budget and Finance	2	\$79,453,689
Business, Economic Development and Tourism	15	\$48,346,227
Commerce and Consumer Affairs	12	\$29,588,171
Defense	0	\$0
Education	11	\$15,238,984
Hawaiian Homelands	3	\$29,539,549
Health	25	\$101,729,157
Hawaii Health Systems Corporation	1	\$34,837
Human Resources Development	1	\$337,369
Human Services	1	\$749,760
Hawaii Public Housing Authority	0	\$0
Labor and Industrial Relations	6	\$327,412,159
Land and Natural Resources	24	\$28,490,027
Public Safety	2	\$1,119,685
Taxation	2	\$682,864
Transporation	15	\$582,449,161
University of Hawaii	50	\$119,225,732
<b>TOTAL</b>	<b>186</b>	<b>1,412,357,203</b>

### Policy Recommendations

The possibility that the State of Hawaii could have some \$1.4 billion in unspent *excess* balances – greater than the entire \$1.2 billion shortfall faced by the state legislature this session— and that the money is allowed to continue to simply sit and collect interest seems absurd at a time when most taxpayers and businesses are struggling to make ends meet. As the majority of the numbers provided by the Department of Budget and Finance's worksheets are estimates, there may very well be even more money unknown to the public at large. Policy makers should take several actions to correct this needless government hoarding.

The most pressing policy action for the State of Hawaii is to produce for the public a complete, accurate financial picture of all funds and how much money is present in each account. The state should present that information in an easy to access and reasonably understandable format to the public. It is unacceptable that billions of dollars are held by the state without any accurate accounting or accountability to the public.

Second, the Legislature in its next convening must make it a point to repeal all special funds which either have zero balances or collect and/or hold revenues to fund projects that no longer exist by mandate. The Legislature should consider the possibility of returning some or all of those excess funds to the taxpayers. If the entire balance of the excess special funds were returned to the public, each person would receive \$1,090.47 per capita – certainly enough to allow individuals to put that money into the bank, make investments, pay off debts or even pay for food and medication, which are increasingly difficult for the poor and those on fixed income to purchase.

Third, Hawaii policymakers should re-evaluate whether or not special funds should be permitted in the first place. The existence of special funds encourages waste in that they allow

legislators to create funds that can, at times, fund projects that may not be of critical importance to the general welfare of the public. Departments should not be allowed to retain excess balances of any form, nor should administrators be given free reign in reallocating funds; these practices erode the power of the legislative branch to control the purse strings.

### Conclusion

Transparent, accountable government that represents the best interests of the people must make a concerted effort to present precise and timely financial information to the public. As the effects of the global economy and hyperinflation present new challenges each day to balancing a state budget, the ability for the public to know the exact location of each tax dollar is of critical importance. Furthermore, massive waste of taxpayer dollars in the form of excessive unspent revenues is an affront to liberty. The State of Hawaii should produce for the public a clear, accurate financial picture of all special funds and how much money is present in each account. In addition, the Hawaii State Legislature should repeal all special funds and return their balances to the taxpayers. Every tax dollar that the government holds or spends is a dollar that was earned by and could have remained with a household in Hawaii—and the “special funds” of families warrant more protection than those crafted by lawmakers.

## Reference

Reports on Non-General Fund Information: Fiscal Years 2006 – 2012 [online]. Retrieved June 19, 2010 from Hawaii Dept. of Budget and Finance: <http://www.hawaii.gov/>

## Footnotes

- <sup>1</sup> "Hawaii governor signs state budget for 2010-11 - BusinessWeek." *BusinessWeek - Business News, Stock Market & Financial Advice*. N.p., n.d. Web. 2 Aug. 2010. <<http://www.businessweek.com/ap/financialnews/D9GL170G0.htm>>.