

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2519, S.D. 1

March 27, 2014

RELATING TO THE GENERAL FUND EXPENDITURE CEILING

Senate Bill No. 2519, S.D. 1, amends Section 37-91, HRS, to revise the formula for computing the general fund expenditure ceiling. The current general fund expenditure ceiling formula uses total FY 1979 general fund appropriations as the initial expenditure ceiling base and the expenditure ceiling for each succeeding fiscal year is calculated by applying the state growth rate (which is based on total personal income growth) to the prior fiscal year's expenditure ceiling. Starting with FY 2016, this bill proposes to establish the FY 2015 general fund appropriation as the initial expenditure ceiling base. Succeeding fiscal years' expenditure ceiling would be calculated using the previous fiscal year's expenditure ceiling.

The Department of Budget and Finance supports the intent of this bill. The proposed revisions should make the expenditure ceiling more relevant in future years.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, General fund expenditure ceiling

BILL NUMBER: SB 2519, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 37-91 to provide that beginning with the 2015-2016 fiscal year, the general fund expenditure ceiling shall be determined by using the 2014-2015 general fund appropriations as the initial expenditure ceiling. Provides that the expenditure ceiling for succeeding fiscal years shall be computed by adjusting the total general fund appropriation for the immediate prior fiscal year by the applicable state growth.

When a revision is made to total state personal income, the expenditure ceiling shall be recalculated on the basis of latest data available going back to fiscal year 2014-2015.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes that the general fund expenditure ceiling shall be computed by using the general fund appropriations of 2014-2015 as the initial expenditure ceiling. If approved, the change would be effective beginning with the fiscal 2015-2016 year.

The 1978 Constitutional Convention established the general fund expenditure ceiling based on the estimated growth of the state's economy. Act 277, SLH 1980, the enabling legislation, defined the growth of the state's economy as the rate of increase in total state personal income averaged over the preceding three calendar years. The issue of whether that definition is still a good measure of economic growth after 30 years of use is a worthy one to debate. Consideration might be given having the next tax review commission or a study group review the ramifications of the proposed change prior to adoption of this measure as proposed.

Digested 3/24/14