



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

GOV. MSG. NO. 1324

July 12, 2017

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

Re: SB724 HD1 CD1

SB724 HD1 CD1, entitled "A BILL FOR AN ACT RELATING TO NON-DISCRETIONARY COSTS" will become law without my signature, pursuant to Section 16 of Article III of the State Constitution.


This bill requires the Department of Budget and Finance to submit a one-time report prior to the 2019 Regular Session, on various non-discretionary costs and related ratios for fiscal years 2018-2019 and 2019-2020. It also requires the Director of Finance to recommend whether the information should be provided annually after 2019.

Compiling the report will require the Department of Business, Economic Development, and Tourism to forecast data for population, gross State product and personal income. There will be a one- to two-year lag before actual data becomes available to produce a forecast. In addition, there are margins of error in forecasts, especially the further out into the future the forecasts are made. Moreover, forecasts won't be able to predict "economic shocks" and the use of a handful of metrics is too simplistic to forecast the future of Hawai'i's economy (population, personal income and gross State product).

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The Honorable Scott K. Saiki and Members of the House
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For the foregoing reasons, SB724 HD1 CD1 will become law as Act 210, Session Laws of Hawaii 2017, effective July 12, 2017, without my signature.

Sincerely,

A handwritten signature in black ink that reads "David Y. Ige". The signature is fluid and cursive, with the first name "David" and the last name "Ige" being the most prominent parts.

DAVID Y. IGE
Governor, State of Hawaii

A BILL FOR AN ACT

RELATING TO NON-DISCRETIONARY COSTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to address non-
2 discretionary costs by requiring the department of budget and
3 finance to report certain data on non-discretionary costs for
4 fiscal year 2018-2019 and fiscal year 2019-2020. The data are
5 intended to provide alternative views of the burden of non-
6 discretionary costs on the general fund.

7 The legislature finds that data on the impacts and trends
8 of non-discretionary costs paid with general funds are necessary
9 to provide indicators regarding the budgetary situation of the
10 State. If the burden of non-discretionary costs, especially
11 fixed costs for debt service and state employee fringe benefits,
12 becomes too high, support for other worthy discretionary
13 programs may suffer. In order to avoid this predicament, the
14 legislature finds that monitoring of the non-discretionary cost
15 burden must be constant and vigilant. The legislature requires
16 data on impacts and trends in order to make corrective actions
17 early before the advent of crises.



1 The legislature further finds that the state debt
2 affordability study submitted in December of 2016 by the
3 department of budget and finance pursuant to chapter 37C, part
4 II, Hawaii Revised Statutes, includes various indicators of the
5 state debt and fixed costs burden. The data required by this
6 Act are intended to supplement the findings of that study and
7 future studies.

8 This Act requires the department of budget and finance to
9 submit estimates of certain non-discretionary cost burden
10 indicators for fiscal year 2018-2019 and fiscal year 2019-2020.

11 The legislature recognizes that state resources would need
12 to be committed to collecting, preparing, and reporting the
13 estimates. The legislature finds that consideration should be
14 given to whether the benefit gained by the additional budgetary
15 information outweighs the possible negative impacts of diverting
16 state resources from other duties.

17 SECTION 2. For the purpose of this Act:

18 "Expenditures in a fiscal year of the general fund
19 appropriations for non-discretionary costs for that fiscal year"
20 means the sum of the following:



1 (1) Expenditures in the specified fiscal year of the
2 general funds appropriated to be expended for non-
3 discretionary costs; and

4 (2) Encumbrances on June 30 of the specified fiscal year
5 of the general funds appropriated to be expended for
6 non-discretionary costs.

7 The "expenditures in the specified fiscal year" under paragraph
8 (1) shall not include any expenditures in the specified fiscal
9 year of an encumbrance that existed on June 30 of any year
10 previous to the specified fiscal year.

11 "Fixed costs" means the following types of costs:

12 (1) Debt service payments for general obligation bonds;

13 (2) Employer contributions for pension and retirement
14 benefits of state government employees; and

15 (3) Employer contributions for health insurance benefits
16 of state government employees and state government
17 retirees.

18 "Gross state product" means the value added in production
19 by the labor and property located in the State, as identified or
20 estimated by the department of business, economic development,



1 and tourism by reference to another source or its own
2 calculation.

3 "Medicaid service costs" means the costs of services
4 provided to low-income persons under the medical assistance
5 programs administered by the department of human services
6 pursuant to section 346-14(7), Hawaii Revised Statutes, and
7 funded in part under Title XIX of the federal Social Security
8 Act, as amended. The term does not include the costs of
9 management, administrative, or other overhead services performed
10 by the department of human services for medicaid.

11 "Modified general funded non-discretionary costs coverage
12 ratio for a fiscal year" means the ratio calculated for the
13 specified fiscal year by dividing the difference under paragraph
14 (1) by the difference under paragraph (2):

15 (1) The difference between:

16 (A) General fund revenues collected in the specified
17 fiscal year; and

18 (B) General fund revenues collected in the fiscal
19 year previous to the specified fiscal year; and

20 (2) The difference between:



- 1 (A) Expenditures in the fiscal year of the general
- 2 fund appropriations for non-discretionary costs
- 3 in the specified fiscal year; and
- 4 (B) Expenditures in the previous fiscal year of the
- 5 general fund appropriations for non-discretionary
- 6 costs in the fiscal year previous to the
- 7 specified fiscal year.

8 "Non-discretionary costs" means fixed costs and medicaid
9 service costs.

10 "Per capita general funded non-discretionary costs for a
11 fiscal year" means the amount of general funded non-
12 discretionary costs per resident of the State, calculated by
13 dividing the amount under paragraph (1) by the amount under
14 paragraph (2):

- 15 (1) The expenditures of the general fund appropriations
- 16 for non-discretionary costs in the specified fiscal
- 17 year; and
- 18 (2) The resident population of the State in the specified
- 19 fiscal year, as identified or estimated by the
- 20 department of business, economic development, and



1 tourism by reference to another source or its own
2 calculation.

3 "Percentage of general funded non-discretionary costs to
4 general fund revenues for a fiscal year" means the percentage
5 calculated by dividing the amount under paragraph (1) by the
6 amount under paragraph (2):

7 (1) The expenditures of the general fund appropriations
8 for non-discretionary costs in the specified fiscal
9 year; and

10 (2) The general fund revenues collected in the specified
11 fiscal year.

12 "Percentage of general funded non-discretionary costs to
13 gross state product" means the percentage calculated by dividing
14 the amount under paragraph (1) by the amount under paragraph
15 (2):

16 (1) The expenditures of the general fund appropriations
17 for non-discretionary costs in the specified fiscal
18 year; and

19 (2) The gross state product in the specified fiscal year.



1 "Percentage of general funded non-discretionary costs to
2 personal income" means the percentage calculated by dividing the
3 amount under paragraph (1) by the amount under paragraph (2):

4 (1) The expenditures of the general fund appropriations
5 for non-discretionary costs in the specified fiscal
6 year; and

7 (2) The personal income in the specified fiscal year.

8 "Personal income" means the income received by all persons
9 in the State for participation in production, from government
10 and business transfer payments, and from government interest, as
11 identified or estimated by the department of business, economic
12 development, and tourism by reference to another source or its
13 own calculation.

14 SECTION 3. (a) By January 1, 2019, the department of
15 budget and finance shall submit a report to the governor and
16 legislature that estimates the following for fiscal year 2018-
17 2019 and fiscal year 2019-2020:

18 (1) Percentage of general funded non-discretionary costs
19 to general fund revenues for each fiscal year;

20 (2) Per capita general funded non-discretionary costs for
21 each fiscal year;



- 1 (3) Percentage of general funded non-discretionary costs
- 2 to gross state product for each fiscal year;
- 3 (4) Percentage of general funded non-discretionary costs
- 4 to personal income for each fiscal year; and
- 5 (5) Modified general funded non-discretionary costs
- 6 coverage ratio for each fiscal year.

7 (b) The report shall include the amounts used to calculate

8 the estimates under subsection (a) (1), (2), (3), (4), and (5).

9 SECTION 4. The director of finance shall submit to the

10 legislature a recommendation on whether the information required

11 by this Act should be provided annually. The recommendation

12 shall be included in the report required under section 3 of this

13 Act.

14 SECTION 5. This Act shall take effect on July 1, 2018.

APPROVED this day of , 2017

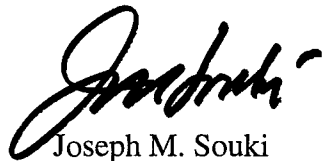
GOVERNOR OF THE STATE OF HAWAII

SB No. 724, HD 1, CD 1

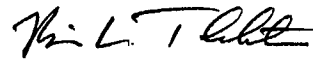
THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2017.



Joseph M. Souki
Speaker
House of Representatives

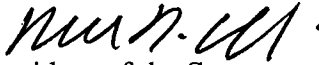


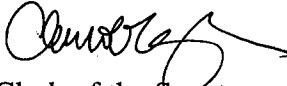
Brian L. Takeshita
Chief Clerk
House of Representatives

THE SENATE OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the
Senate of the Twenty-ninth Legislature of the State of Hawaii, Regular Session of 2017.


President of the Senate


Clerk of the Senate