

---

---

# A BILL FOR AN ACT

RELATING TO BUDGET DOCUMENTS.

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

1           SECTION 1. The legislature finds that information on tax  
2 expenditures is necessary for good public policy decision-  
3 making. Tax expenditures, like appropriations of funds, result  
4 in the reduction of available resources for public programs.  
5 Thus, the legislature requires information in order to weigh the  
6 costs of tax expenditures against the costs of public programs  
7 that are dependent on budget appropriations.

8           The legislature further finds that this Act promotes  
9 transparency. Public information on tax expenditures,  
10 particularly their negative impact on the state treasury, is not  
11 as readily available as is public information on budget  
12 appropriations and expenditures. This Act is intended to  
13 provide more publicly available information on tax expenditures.

14           This Act recognizes that the expertise in providing tax  
15 expenditure information rests with the department of taxation,  
16 and not the department of budget and finance, which is  
17 responsible for preparing the state six-year program and  
18 financial plan and budget. Consequently, this Act requires the



1 department of taxation to provide the relevant information upon  
2 request of the department of budget and finance.

3 The legislature has delayed the effective date of this Act  
4 to give the department of taxation time to prepare for providing  
5 the applicable tax expenditure information. The legislature is  
6 aware that, at present, the department of taxation may not have  
7 the capability to compile the information.

8 However, the legislature notes that the department of  
9 taxation is undertaking a tax system modernization project, the  
10 total cost of which may reach \$59,900,000. Given the project's  
11 magnitude and cost to taxpayers, the legislature expects the  
12 project to produce substantial benefits. One expected benefit  
13 is better access to tax expenditure information for the  
14 legislature and the public.

15 The purpose of this Act is to require that the state six-  
16 year program and financial plan and budget include information  
17 on tax expenditures, meaning the amount of revenue lost due to  
18 tax credits, exemptions, deductions, and abatements.

19 SECTION 2. Section 37-62, Hawaii Revised Statutes, is  
20 amended by adding a new definition of "tax expenditures" to be  
21 appropriately inserted and to read as follows:



1       "Tax expenditure" means an exemption, deduction, credit,  
2 exclusion, or other deviation from normal tax structure, as  
3 determined by the department of taxation. The term does not  
4 include:

- 5       (1) Amounts lost due to compromises, settlements, or  
6 closing agreements; or  
7       (2) Any exemption, deduction, credit, or exclusion that is  
8 allowed for Hawaii income tax purposes by conformity  
9 to provisions in the Internal Revenue Code."

10       SECTION 3. Section 37-69, Hawaii Revised Statutes, is  
11 amended by amending subsection (c) to read as follows:

12       "(c) The financial plan for the ensuing six fiscal years  
13 shall more specifically include:

- 14       (1) Economic data for the State and the counties of the  
15 following kinds:  
16       (A) Population: Including historical, current, and  
17 projected population count; population  
18 distribution by age and sex; estimated increases  
19 and decreases, including increases and decreases  
20 by immigration;



- 1 (B) Employment: Including magnitude of labor force
- 2 by age and sex; labor force participation rates;
- 3 employment by age and sex; industry and
- 4 occupational surpluses and shortages; effects of
- 5 government programs on employment rate;
- 6 (C) Income: Including per capita and per family
- 7 income; disposable income; income distribution;
- 8 (D) Wages and prices: Including wages by industry
- 9 and occupational groups; prices for government
- 10 procurement items; construction costs; cost of
- 11 living index; price indices for components of
- 12 personal consumption;
- 13 (E) Industry and business trends; and
- 14 (F) Effects of national economic and financial
- 15 policies and conditions;
- 16 (2) Brief statements disclosing the basis upon which the
- 17 revenue estimates in the plan were made, including for
- 18 each specific tax and nontax revenue source:
- 19 (A) The previous projections for the last completed
- 20 fiscal year and the fiscal year in progress;



- 1 (B) The variance between the projections and the
- 2 actual or revised estimate, and the reasons for
- 3 the variances;
- 4 (C) Tax or source base and rates;
- 5 (D) Yield projections of existing revenue sources and
- 6 existing taxes at authorized rates;
- 7 (E) Assumptions made and methodology used in
- 8 projections;
- 9 (F) Changes recommended; and
- 10 (G) Projected yields if changes are adopted; etc.;
- 11 (3) At the lowest level on the state program structure,
- 12 for each program:
- 13 (A) The total actual program cost for the last
- 14 completed fiscal year, the estimated cost for the
- 15 fiscal year in progress, and the estimated cost
- 16 for each of the next six fiscal years; research
- 17 and development, operating, and capital costs
- 18 shall be included and the means of financing
- 19 shall be identified. The position ceiling and
- 20 all lease payments shall be shown for the
- 21 program, identified by their means of financing;



- 1 (B) The program size indicators; the actual size
- 2 attained in the last completed fiscal year, the
- 3 estimated size for the fiscal year in progress,
- 4 and the estimated size for each of the next six
- 5 fiscal years; and
- 6 (C) The effectiveness measures; the actual level of
- 7 effectiveness attained in the last completed
- 8 fiscal year, the estimated level of effectiveness
- 9 for the fiscal year in progress, and the
- 10 estimated level for each of the next six fiscal
- 11 years;
- 12 (4) Appropriate displays of paragraph (3)(A) and (C), at
- 13 every level of the state program structure above the
- 14 lowest level, by the major groupings of programs
- 15 encompassed within the level. The displays of
- 16 paragraph (3)(A) shall appropriately identify the
- 17 means of financing and position ceiling included in
- 18 the level;
- 19 (5) Financial summaries displaying the State's financial
- 20 condition, actual for the last completed fiscal year,



1 and estimated for the fiscal year in progress and each  
2 of the next six fiscal years, including:

3 (A) A display of the programmed, total state  
4 expenditures, by cost categories, the total state  
5 resources anticipated from existing tax and  
6 nontax sources at existing rates, by resource  
7 categories, including the fund balance or deficit  
8 at the beginning of the fiscal year and bond  
9 receipts, and the resulting fund balance or  
10 deficit at the close of each fiscal year. Lease  
11 payments in each cost category shall be stated  
12 separately; and

13 (B) The changes proposed to the existing tax and  
14 nontax rates, sources or structure, and the  
15 estimated increases or reductions in revenues,  
16 the estimated cumulative increases or reductions,  
17 and the estimated fund balance or deficit in each  
18 of the next six fiscal years as a result of  
19 [~~such~~] the proposed changes. Proposals for  
20 changes in the existing tax and nontax rates,  
21 sources or structure shall be made in every case



1           where the proposed, total state expenditures  
2           exceed the total resources anticipated from  
3           existing tax and nontax sources at existing  
4           rates.

5           The financial summaries shall be prepared for the  
6           total state expenditures and resources and for the  
7           general fund and special fund portions thereof;

8           (6) A summary of the balance of each special fund, actual  
9           for the last completed fiscal year and estimated for  
10          the fiscal year in progress and estimated for each of  
11          the next six fiscal years;

12          (7) A summary of the State's total bond fund required to  
13          carry out the recommended programs and the kinds of  
14          bonds and amounts thereof through which the  
15          requirements were met in the last completed fiscal  
16          year, are to be met in the fiscal year in progress,  
17          and are proposed to be met in each of the next six  
18          fiscal years. The summary shall detail, for each  
19          fiscal year:

20                (A) Of the total bond fund requirements, the amount,  
21                by cost categories, requiring new bond issuance





1 authorization and the kinds and amounts of bonds  
2 planned for issuance under the new  
3 authorizations;

4 (B) By bond categories, the total, cumulative balance  
5 of bonds authorized in prior years but unissued  
6 and the amount thereof proposed to be issued; and

7 (C) A recapitulation of the total bonds to be issued,  
8 including both new authorizations and prior  
9 authorizations, by bond categories;

10 (8) Separately for general fund tax revenues, special fund  
11 tax revenues, general fund nontax revenues, and  
12 special fund nontax revenues:

13 (A) By kinds of taxes or sources, the amount of  
14 revenue from existing, authorized taxes or  
15 sources at existing rates received in the last  
16 completed fiscal year and estimated to be  
17 received in the fiscal year in progress and in  
18 each of the next six fiscal years;

19 (B) By kinds of taxes, the amount of tax expenditures  
20 made in the last completed fiscal year and  
21 estimated to be made in the fiscal year in



1           progress and in each of the next six fiscal  
2           years. Upon the request of the department of  
3           budget and finance, the department of taxation  
4           shall provide the information required by this  
5           subparagraph;

6           ~~[(B)]~~ (C) A summary of the proposed changes in the  
7           existing taxes or sources or rates, and the  
8           estimated increases or reductions in revenues in  
9           each of the next six fiscal years resulting from  
10          ~~[such]~~ the changes; and

11          ~~[(C)]~~ (D) The total estimated revenues with and  
12          without the proposed changes in each of the next  
13          six fiscal years;

14          (9) A summary of the State's total payments due under  
15          financing agreements required to carry out the  
16          recommended programs and the kinds of financing  
17          agreements and amounts thereof through which the  
18          requirements were met in the last completed fiscal  
19          year, are to be met in the fiscal year in progress,  
20          and are proposed to be met in each of the next six



1 fiscal years. The summary shall detail, for each  
2 fiscal year:

3 (A) Of the total financing agreement requirements,  
4 the amount, by cost categories, requiring new  
5 financing agreement authorizations and the kinds  
6 and amounts of financing agreements planned for  
7 execution and delivery under the new  
8 authorizations;

9 (B) By cost category, the cumulative balance of  
10 financing agreements authorized in prior years  
11 but not executed and delivered and the amount  
12 proposed to be executed and delivered; and

13 (C) A recapitulation of the total financing  
14 agreements to be executed and delivered,  
15 including both new authorizations and prior  
16 authorizations, by cost categories; and

17 (10) A summary of the state government's pension liability  
18 and other post-employment benefit liability for which  
19 the most current information is available, including:



- 1 (A) Unfunded actuarial accrued liability specified in
- 2 the latest actuarial valuation report available
- 3 in the pertinent fiscal year;
- 4 (B) Funded ratio specified in the latest actuarial
- 5 valuation report available in the pertinent
- 6 fiscal year;
- 7 (C) Funding period specified in the latest actuarial
- 8 valuation report available in the pertinent
- 9 fiscal year; and
- 10 (D) Annual required contribution for the pertinent
- 11 fiscal year and the proportion of the annual
- 12 required contribution budgeted to be paid in that
- 13 fiscal year."

14 SECTION 4. Section 37-71, Hawaii Revised Statutes, is  
15 amended by amending subsection (d) to read as follows:

16 "(d) The summaries of the state receipts and revenues  
17 shall more specifically include:

18 (1) Financial summaries displaying the State's financial  
19 condition, to-wit:

20 (A) A display of the proposed, total state  
21 expenditures, by cost categories, the total state



1 resources anticipated from existing taxes and  
2 nontax sources at existing rates, by resource  
3 categories (including the available fund balances  
4 or deficits and anticipated bond receipts), and  
5 the fund balance or deficit resulting therefrom  
6 for the biennium in progress, for the ensuing  
7 biennium, and for each of the two fiscal years of  
8 the ensuing biennium; and

9 (B) The changes proposed to the existing tax and  
10 nontax rates, sources, or structure, and the  
11 estimated cumulative increases or reductions, and  
12 the estimated fund balance or deficit in the  
13 ensuing biennium and in each of the two fiscal  
14 years of the biennium as a result of [~~such~~] the  
15 proposed changes. Proposals for changes in the  
16 existing tax and nontax rates, sources, or  
17 structure shall be made in every case where the  
18 proposed, total state expenditures exceed the  
19 total state resources anticipated from existing  
20 tax and nontax sources at existing rates.



1           [~~Such~~] The financial summaries shall be prepared for  
2           the total state expenditures and resources and for the  
3           general fund and special fund portions thereof;

4           (2) A summary of the balances of each special fund, actual  
5           for the last completed fiscal year and estimated for  
6           the fiscal year in progress and for each of the two  
7           fiscal years in the ensuing biennium;

8           (3) A summary of the State's total bond fund required to  
9           carry out the recommended programs and the kinds of  
10          bonds and amounts thereof through which [~~such~~] the  
11          requirements are to be met in the biennium in progress  
12          and in each of the two fiscal years in the ensuing  
13          biennium. The summary shall detail for the biennium  
14          in progress and for each of the two years of the  
15          ensuing biennium:

16          (A) Of the total requirements, the amount, by cost  
17          categories, requiring new bond issuance  
18          authorization and the kinds and amounts of bonds  
19          planned for issuance under [~~such~~] the new  
20          authorization;



- 1 (B) By bond categories, the total, cumulative balance  
2 of bonds authorized in prior years but unissued  
3 and the amount thereof planned to be issued; and
- 4 (C) A recapitulation of the total bonds, both new  
5 authorizations and prior authorizations, by bond  
6 categories, proposed to be issued;
- 7 (4) A tentative schedule by quarter and fiscal year of the  
8 amount of general obligation bonds and the amount of  
9 revenue bonds proposed to be issued in the ensuing  
10 fiscal biennium;
- 11 (5) A schedule of projected debt service charges for  
12 general obligation bonds outstanding at the time of  
13 the submission of the budget and to be issued by the  
14 close of the budget biennium in progress and the close  
15 of the ensuing budget biennium. The projection shall  
16 be separately stated for:
- 17 (A) Bonds currently outstanding;
- 18 (B) Bonds to be issued during the remainder of the  
19 fiscal biennium in progress and during the  
20 ensuing fiscal biennium; and



1 (C) The total bonds currently outstanding and to be  
2 issued.

3 In each case, the projection shall be categorized into  
4 debt service to be paid directly from the general  
5 fund, debt service to be paid through reimbursements,  
6 and total debt service. The projection shall extend  
7 at least five years beyond the close of the ensuing  
8 fiscal biennium. An explanation shall be appended to  
9 the schedule, which shall include among other things,  
10 the amount of bonds to be issued during the fiscal  
11 year in progress and in each of the two fiscal years  
12 of the ensuing biennium, the maturities of the bonds  
13 to be issued, the method of retirement, and the  
14 interest rate assumed in the projection;

15 (6) A schedule of the current state funded debt, legal  
16 debt limit, and the legal debt margin, including the  
17 details thereof. In any budget [~~which~~] that proposes  
18 appropriations for which the source of funding is  
19 general obligation bonds, the schedule shall include a  
20 declaration by the director of finance and  
21 computations showing that the total amount of





1 principal and interest, estimated for [~~such~~] the  
2 proposed appropriations and for all bonds authorized  
3 and unissued and calculated for all bonds issued and  
4 outstanding, will not cause the debt limit to be  
5 exceeded at the time of issuance;

6 (7) Separately for general fund tax revenues, special fund  
7 tax revenues, general fund nontax revenues, and  
8 special fund nontax revenues:

9 (A) By kinds of taxes or sources, the amount of  
10 revenue from existing, authorized taxes or  
11 sources at existing rates received in the last  
12 completed fiscal year and estimated to be  
13 received in the fiscal year in progress and in  
14 each of the two fiscal years in the ensuing  
15 biennium, with appropriate totals for the two  
16 bienniums;

17 (B) The same information required for tax  
18 expenditures under section 37-69(c)(8)(B);

19 [~~(B)~~] (C) A summary of the proposed changes in the  
20 existing taxes or sources or rates, and the  
21 estimated increases or reductions in revenues in



1 each of the two years in the ensuing fiscal  
2 biennium resulting from [~~such~~] those changes; and  
3 [~~(C)~~] (D) The total estimated revenues with and  
4 without the proposed changes;

5 (8) A summary of the State's total payments due under  
6 financing agreements required to carry out the  
7 recommended programs and the kinds of financing  
8 agreements and amounts thereof through which those  
9 requirements are to be met in the biennium in progress  
10 and in each of the two fiscal years in the ensuing  
11 biennium. The summary shall detail for the biennium  
12 in progress and for each of the two years of the  
13 ensuing biennium:

14 (A) Of the total financing agreement requirements,  
15 the amount, by cost categories, requiring new  
16 financing agreement authorizations and the kinds  
17 and amounts of financing agreements planned for  
18 execution and delivery under the new  
19 authorizations;

20 (B) By cost category, the cumulative balance of  
21 financing agreements authorized in prior years



1 but not executed and delivered and the amount  
2 thereof proposed to be executed and delivered;  
3 and

4 (C) A recapitulation of the total financing  
5 agreements to be executed and delivered,  
6 including both new authorizations and prior  
7 authorizations, by cost categories; and

8 (9) The same information required under section  
9 37-69(c)(10) for the state government's pension and  
10 other post-employment benefits liabilities."

11 SECTION 5. Sections 3 and 4 shall apply to the six-year  
12 program and financial plans, budgets, and supplemental budgets  
13 submitted under sections 37-69, 37-71, and 37-72, Hawaii Revised  
14 Statutes, after the effective date of this Act.

15 SECTION 6. Statutory material to be repealed is bracketed  
16 and stricken. New statutory material is underscored.

17 SECTION 7. This Act shall take effect on July 1, 2018.



**Report Title:**

Budget Documents; Tax Expenditures

**Description:**

Requires the six-year program and financial plan and budget to include information on tax expenditures. (CD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

