A BILL FOR AN ACT

RELATING TO BUDGET DOCUMENTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAI'I:

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

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

This Act recognizes that the expertise in providing tax expenditure information rests with the department of taxation, and not the department of budget and finance, which is responsible for preparing the state six-year program and financial plan and budget. Consequently, this Act requires the
The legislature has delayed the effective date of this Act to give the department of taxation time to prepare for providing the applicable tax expenditure information. The legislature is aware that, at present, the department of taxation may not have the capability to compile the information.

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

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

SECTION 2. Section 37-62, Hawaii Revised Statutes, is amended by adding a new definition of "tax expenditures" to be appropriately inserted and to read as follows:
"Tax expenditure" means an exemption, deduction, credit, exclusion, or other deviation from normal tax structure, as determined by the department of taxation. The term does not include:

(1) Amounts lost due to compromises, settlements, or closing agreements; or

(2) Any exemption, deduction, credit, or exclusion that is allowed for Hawaii income tax purposes by conformity to provisions in the Internal Revenue Code."

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

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

(1) Economic data for the State and the counties of the following kinds:

(A) Population: Including historical, current, and projected population count; population distribution by age and sex; estimated increases and decreases, including increases and decreases by immigration;
(B) Employment: Including magnitude of labor force by age and sex; labor force participation rates; employment by age and sex; industry and occupational surpluses and shortages; effects of government programs on employment rate;

(C) Income: Including per capita and per family income; disposable income; income distribution;

(D) Wages and prices: Including wages by industry and occupational groups; prices for government procurement items; construction costs; cost of living index; price indices for components of personal consumption;

(E) Industry and business trends; and

(F) Effects of national economic and financial policies and conditions;

(2) Brief statements disclosing the basis upon which the revenue estimates in the plan were made, including for each specific tax and nontax revenue source:

(A) The previous projections for the last completed fiscal year and the fiscal year in progress;
(B) The variance between the projections and the actual or revised estimate, and the reasons for the variances;
(C) Tax or source base and rates;
(D) Yield projections of existing revenue sources and existing taxes at authorized rates;
(E) Assumptions made and methodology used in projections;
(F) Changes recommended; and
(G) Projected yields if changes are adopted; etc.;

(3) At the lowest level on the state program structure, for each program:

(A) The total actual program cost for the last completed fiscal year, the estimated cost for the fiscal year in progress, and the estimated cost for each of the next six fiscal years; research and development, operating, and capital costs shall be included and the means of financing shall be identified. The position ceiling and all lease payments shall be shown for the program, identified by their means of financing;
(B) The program size indicators; the actual size attained in the last completed fiscal year, the estimated size for the fiscal year in progress, and the estimated size for each of the next six fiscal years; and

(C) The effectiveness measures; the actual level of effectiveness attained in the last completed fiscal year, the estimated level of effectiveness for the fiscal year in progress, and the estimated level for each of the next six fiscal years;

(4) Appropriate displays of paragraph (3)(A) and (C), at every level of the state program structure above the lowest level, by the major groupings of programs encompassed within the level. The displays of paragraph (3)(A) shall appropriately identify the means of financing and position ceiling included in the level;

(5) Financial summaries displaying the State's financial condition, actual for the last completed fiscal year,
and estimated for the fiscal year in progress and each of the next six fiscal years, including:

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

(B) The changes proposed to the existing tax and nontax rates, sources or structure, and the estimated increases or reductions in revenues, the estimated cumulative increases or reductions, and the estimated fund balance or deficit in each of the next six fiscal years as a result of [such] the proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case
where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.

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

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

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

(A) Of the total bond fund requirements, the amount, by cost categories, requiring new bond issuance,
authorization and the kinds and amounts of bonds
planned for issuance under the new
authorizations;

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

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

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

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

(B) By kinds of taxes, the amount of tax expenditures
made in the last completed fiscal year and
estimated to be made in the fiscal year in
progress and in each of the next six fiscal years. Upon the request of the department of budget and finance, the department of taxation shall provide the information required by this subparagraph;

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

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

(9) A summary of the State's total payments due under financing agreements required to carry out the recommended programs and the kinds of financing agreements and amounts thereof through which the requirements were met in the last completed fiscal year, are to be met in the fiscal year in progress, and are proposed to be met in each of the next six
fiscal years. The summary shall detail, for each fiscal year:

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

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

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

(10) A summary of the state government’s pension liability and other post-employment benefit liability for which the most current information is available, including:
(A) Unfunded actuarial accrued liability specified in the latest actuarial valuation report available in the pertinent fiscal year;

(B) Funded ratio specified in the latest actuarial valuation report available in the pertinent fiscal year;

(C) Funding period specified in the latest actuarial valuation report available in the pertinent fiscal year; and

(D) Annual required contribution for the pertinent fiscal year and the proportion of the annual required contribution budgeted to be paid in that fiscal year."

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

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

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

(A) A display of the proposed, total state expenditures, by cost categories, the total state
resources anticipated from existing taxes and
nontax sources at existing rates, by resource
categories (including the available fund balances
or deficits and anticipated bond receipts), and
the fund balance or deficit resulting therefrom
for the biennium in progress, for the ensuing
biennium, and for each of the two fiscal years of
the ensuing biennium; and

(B) The changes proposed to the existing tax and
nontax rates, sources, or structure, and the
estimated cumulative increases or reductions, and
the estimated fund balance or deficit in the
ensuing biennium and in each of the two fiscal
years of the biennium as a result of [such] the
proposed changes. Proposals for changes in the
existing tax and nontax rates, sources, or
structure shall be made in every case where the
proposed, total state expenditures exceed the
total state resources anticipated from existing
tax and nontax sources at existing rates.
[Such] The financial summaries shall be prepared for the total state expenditures and resources and for the general fund and special fund portions thereof;

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

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

(A) Of the total requirements, the amount, by cost categories, requiring new bond issuance authorization and the kinds and amounts of bonds planned for issuance under [such] the new authorization;
(B) By bond categories, the total, cumulative balance of bonds authorized in prior years but unissued and the amount thereof planned to be issued; and

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

(4) A tentative schedule by quarter and fiscal year of the amount of general obligation bonds and the amount of revenue bonds proposed to be issued in the ensuing fiscal biennium;

(5) A schedule of projected debt service charges for general obligation bonds outstanding at the time of the submission of the budget and to be issued by the close of the budget biennium in progress and the close of the ensuing budget biennium. The projection shall be separately stated for:

(A) Bonds currently outstanding;

(B) Bonds to be issued during the remainder of the fiscal biennium in progress and during the ensuing fiscal biennium; and
(C) The total bonds currently outstanding and to be issued.

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

(6) A schedule of the current state funded debt, legal debt limit, and the legal debt margin, including the details thereof. In any budget [which] that proposes appropriations for which the source of funding is general obligation bonds, the schedule shall include a declaration by the director of finance and computations showing that the total amount of
principal and interest, estimated for such the proposed appropriations and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance;

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

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

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

[(B+)] (C) A summary of the proposed changes in the existing taxes or sources or rates, and the estimated increases or reductions in revenues in
each of the two years in the ensuing fiscal biennium resulting from [such] those changes; and

(D) The total estimated revenues with and without the proposed changes;

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

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

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

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

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

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

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

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.