

H .B. NO. 2419

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The purpose of this Act is to provide revenue
2 generating initiatives that will be benefits-funded, meaning the
3 vendor will only be paid when measurable increases in revenues
4 resulting from the initiatives are collected by the State. The
5 revenues will be used by the department of taxation to enhance
6 its computer system, called the integrated tax information
7 management system, and to streamline related operational
8 procedures. This Act shall be known as the "Integrated Tax
9 Information Management System Post-Implementation Revenue-
10 Generating Initiatives Act of 2006."

11 SECTION 2. Chapter 231, Hawaii Revised Statutes, is
12 amended by adding a new section to be appropriately designated
13 and to read as follows:

14 "§231- Integrated tax information management systems
15 special fund. (a) There is established in the state treasury
16 the integrated tax information management systems special fund,
17 into which shall be deposited ninety per cent of the revenue
18 received by the department from the integrated tax information

1 management systems post-implementation revenue-generating
2 initiatives.

3 (b) Moneys in the fund shall be expended by the department
4 to pay for the integrated tax information management systems
5 performance-based contracts and administrative and operating
6 expenses related to the integrated tax information management
7 systems until the vendor has been fully paid. Unless otherwise
8 provided by law, all other receipts shall immediately be
9 deposited to the credit of the general fund of the State.

10 (c) The department of taxation may enter into performance-
11 based contracts to enhance and/or acquire automated tax systems,
12 including computer hardware and software, for the administration
13 of taxes imposed under title 14.

14 For the purposes of this chapter:

15 "Performance-based contract" means a contract under which
16 compensation to the vendor shall be computed according to
17 performance standards established by the department. Any
18 performance-based contract entered into by the department for
19 such purpose shall provide:

20 (1) For the payment of fees based on a contractually
21 specified amount of the increase in the amount of
22 taxes, interests, and penalties collected and

1 attributable to the implementation of automated tax
2 systems; or

3 (2) For the payment of fees on a fixed-fee contract basis
4 to be paid from the increase in the amount of taxes,
5 interests, and penalties collected and attributable to
6 the implementation of automated tax systems.

7 The State shall receive title to the enhanced and/or automated
8 tax systems upon full payment to the vendor.

9 (d) Notwithstanding any other law to the contrary, the
10 department shall award the performance-based contract pursuant
11 to the requirements of chapter 103D.

12 (e) The department shall report to the legislature no
13 later than twenty days prior to the convening of every regular
14 session with respect to the status of the performance-based
15 contract and shall provide an accounting of all moneys
16 appropriated. The report shall include:

17 (1) Detailed information on the costs and benefits of
18 implementing the automated tax systems;

19 (2) The amount of increased tax, interest, and penalties
20 collected that is attributable to the automated tax
21 system; and

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1 (3) The amount paid to the vendor or vendors contracted
2 under subsection (c). The report shall include
3 information from the preceding fiscal year and shall
4 continue until two complete fiscal years have elapsed
5 following full implementation of the automated tax
6 systems."

7 SECTION 3., Section 36-27, Hawaii Revised Statutes, is
8 amended to read as follows:

9 "**§36-27 Transfers from special funds for central service**
10 **expenses.** Except as provided in this section, and
11 notwithstanding any other law to the contrary, from time to
12 time, the director of finance, for the purpose of defraying the
13 prorated estimate of central service expenses of government in
14 relation to all special funds, except the:

- 15 (1) Special out-of-school time instructional program fund
- 16 under section 302A-1310;
- 17 (2) School cafeteria special funds of the department of
- 18 education;
- 19 (3) Special funds of the University of Hawaii;
- 20 (4) State educational facilities improvement special fund;
- 21 (5) Convention center enterprise special fund under
- 22 section 201B-8;

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- 1 (6) Special funds established by section 206E-6;
- 2 (7) Housing loan program revenue bond special fund;
- 3 (8) Housing project bond special fund;
- 4 (9) Aloha Tower fund created by section 206J-17;
- 5 (10) Funds of the employees' retirement system created by
- 6 section 88-109;
- 7 (11) Unemployment compensation fund established under
- 8 section 383-121;
- 9 (12) Hawaii hurricane relief fund established under chapter
- 10 431P;
- 11 (13) Hawaii health systems corporation special funds;
- 12 (14) Tourism special fund established under section 201B-
- 13 11;
- 14 (15) Universal service fund established under chapter 269;
- 15 (16) Integrated tax information management systems special
- 16 fund under section [~~231-3.27~~] 231- ;
- 17 (17) Emergency and budget reserve fund under section 328L-
- 18 3;
- 19 (18) Public schools special fees and charges fund under
- 20 section 302A-1130(f);
- 21 (19) Sport fish special fund under section 187A-9.5;
- 22 (20) Neurotrauma special fund under section 321H-4;

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- 1 (21) Deposit beverage container deposit special fund under
2 section 342G-104;
- 3 (22) Glass advance disposal fee special fund established by
4 section 342G-82;
- 5 (23) Center for nursing special fund under section 304D-5;
- 6 (24) Passenger facility charge special fund established by
7 section 261-5.5;
- 8 (25) Solicitation of funds for charitable purposes special
9 fund established by section 467B-15;
- 10 (26) Land conservation fund established by section 173A-5;
11 [and]
- 12 [(27)] Court interpreting services revolving fund,
13 shall deduct five per cent of all receipts of all other special
14 funds, which deduction shall be transferred to the general fund
15 of the State and become general realizations of the State. All
16 officers of the State and other persons having power to allocate
17 or disburse any special funds shall cooperate with the director
18 in effecting these transfers. To determine the proper revenue
19 base upon which the central service assessment is to be
20 calculated, the director shall adopt rules pursuant to chapter
21 91 for the purpose of suspending or limiting the application of
22 the central service assessment of any fund. No later than

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1 twenty days prior to the convening of each regular session of
2 the legislature, the director shall report all central service
3 assessments made during the preceding fiscal year."

"4 SECTION 4. Section 36-30, Hawaii Revised Statutes, is
5 amended by amending subsection (a) to read as follows:

6 "(a) Each special fund, except the:

- 7 (1) Transportation use special fund established by section
8 261D-1;
- 9 (2) Special out-of-school time instructional program fund
10 under section 302A-1310;
- 11 (3) School cafeteria special funds of the department of
12 education;
- 13 (4) Special funds of the University of Hawaii;
- 14 (5) State educational facilities improvement special fund;
- 15 (6) Special funds established by section 206E-6;
- 16 (7) Aloha Tower fund created by section 206J-17;
- 17 (8) Funds of the employee's retirement system created by
18 section 88-109;
- 19 (9) Unemployment compensation fund established under
20 section 383-121;
- 21 (10) Hawaii hurricane relief fund established under chapter
22 431P;

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- 1 (11) Convention center enterprise special fund established
2 under section 201B-8;
- 3 (12) Hawaii health systems corporation special funds;
- 4 (13) Tourism special fund established under section 201G-
5 11;
- 6 (14) Universal service fund established under chapter 269;
- 7 (15) Integrated tax information management systems special
8 fund under section [~~231-3.2,~~] 231- ;
- 9 (16) Emergency and budget reserve fund under section 328L-
10 3;
- 11 (17) Public schools special fees and charges fund under
12 section 302A-1130(f);
- 13 (18) Sport fish special fund under section 187A-9.5;
- 14 (19) Neurotrauma special fund under section 321H-4;
- 15 (20) Center for nursing special fund under section 304D-5;
- 16 (21) Passenger facility charge special fund established by
17 section 261-5.5; and
- 18 (22) Court interpreting services revolving fund;
- 19 shall be responsible for its pro rata share of the
20 administrative expenses incurred by the department responsible
21 for the operations supported by the special fund concerned."

1 SECTION 5. Section 237-31, Hawaii Revised Statutes, is
2 amended to read as follows:

3 **"§237-31 Remittances.** All remittances of taxes imposed by
4 this chapter shall be made by money, bank draft, check,
5 cashier's check, money order, or certificate of deposit to the
6 office of the department of taxation to which the return was
7 transmitted. The department shall issue its receipts therefor
8 to the taxpayer and shall pay the moneys into the state treasury
9 as a state realization, to be kept and accounted for as provided
10 by law; provided that:

11 (1) The sum from all general excise tax revenues realized
12 by the State that represents the difference between
13 \$45,000,000 and the proceeds from the sale of any
14 general obligation bonds authorized for that fiscal
15 year for the purposes of the state educational
16 facilities improvement special fund shall be deposited
17 in the state treasury in each fiscal year to the
18 credit of the state educational facilities improvement
19 special fund;

20 (2) A sum, not to exceed \$5,000,000, from all general
21 excise tax revenues realized by the State shall be
22 deposited in the state treasury in each fiscal year to

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1 the credit of the compound interest bond reserve fund;
2 and

3 (3) A sum, not to exceed the amount necessary to meet the
4 obligations of the integrated tax information
5 management systems performance-based contract may be
6 retained and deposited in the state treasury to the
7 credit of the integrated tax information management
8 systems special fund. The sum retained by the
9 director of taxation for deposit to the integrated tax
10 information managements systems special fund for each
11 fiscal year shall be limited to amounts appropriated
12 by the legislature."

13 SECTION 6. There is appropriated out of the integrated tax
14 information management systems special fund the sum of
15 \$_____, or so much thereof as may be necessary, for
16 fiscal year 2006-2007 to carry out the purposes of this Act.
17 The sum appropriated shall be expended by the department of
18 taxation.

19 SECTION 7. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.

21 SECTION 8. This Act shall take effect on July 1, 2006 and
22 shall be repealed on June 30, 2011.

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INTRODUCED BY: *Colin H. Day*

BY REQUEST

JAN 23 2006

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO TAXATION.

PURPOSE: To provide revenue generating initiatives that will be benefits-funded, meaning the vendor will only be paid when measurable increases in revenues resulting from the initiatives are collected by the State, to create an ITIMS special fund to hold the proceeds from the initiatives, to be used in part to enhance the Department of Taxation's computer system, the integrated tax information management system (ITIMS), and to fund related operational and administrative functions.

MEANS: Add a new section to chapter 231, Hawaii Revised Statutes (HRS), makes conforming amendments to sections 36-27, 36-60, and 237-31, HRS, and makes an appropriation.

JUSTIFICATION: The department has successfully proven its ability to deliver increased revenues for the State general fund. In 1999, the department began ITIMS, a five-year information technology modernization effort to reorganize business processes and to implement an integrated tax processing system costing \$53 million. These initiatives were certified to have increased revenues by more than \$252 million during the five years of the project. This is revenue that was deposited into the State's general fund, without a tax increase or increase in staffing, and represents a 475 percent return on investment.

While the initial ITIMS initiatives were of significant value to the State, the department has researched and identified

additional technology initiatives that have proven in other States to generate even more revenue. These initiatives would allow the department to expand its capabilities to identify areas of non-compliance, improve the collection of outstanding liabilities, expand its capacity to process increasing volumes, and improve customer service capabilities to make it easier for taxpayers to comply with State tax laws. Based on results in other States, this additional set of technology initiatives would cost \$26.0 million in vendor expenses to implement, and is conservatively estimated to increase revenues by \$91.2 million over a five-year period.

Since these new initiatives represent a significant revenue-generating potential, the department would like to utilize a benefits-funding approach for the contract structure. As was the case in the five-year ITIMS project, benefits funding establishes mandatory performance targets that the vendor must achieve to be paid.

As measurable revenues attributable to the new initiatives are realized and certified, these revenues will be distributed between the ITIMS special fund and the general fund. Since under the benefits-funding method, the vendor is responsible for up-front costs of the upgrades, 90 percent of the initial distribution will go to the ITIMS special fund to be used to pay the vendor until vendor costs have been fully paid, and the remaining 10 per cent will be transferred to the general fund. In this way, the ITIMS special fund will provide a self-sufficient model to fund ITIMS revenue-generating initiatives, and related tax processing and capacity improvements, while providing the general fund with an estimated revenue boost of approximately \$65.2 million over five years.

Impact on the public: Will improve collection of taxes without impacting the general fund by upgrading the ITIMS via a performance-based contract that is funded by a portion of the additional revenues generated by the upgraded ITIMS.

Impact on the department and other agencies: The upgraded computer system will enable the department to utilize Internal Revenue Service data to enforce compliance with tax obligations.

GENERAL FUND: Will result in a general fund revenue increase of \$65.2 million, taking into account vendor implementation costs.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: TAX 102.

OTHER AFFECTED AGENCIES: Budget & Finance

EFFECTIVE DATE: July 1, 2006