

Honolulu, Hawaii

, 2006

RE: S.B. No. 2382  
S.D. 1

Honorable Robert Bunda  
President of the Senate  
Twenty-Third State Legislature  
Regular Session of 2006  
State of Hawaii

Sir:

Your Committee on Media, Arts, Science, and Technology, to which was referred S.B. No. 2382 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) 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;
- (2) Create an integrated tax information management system (ITIMS) special fund to hold the proceeds from the initiatives, to be used in part to enhance the Department of Taxation's computer system, ITIMS; and
- (3) Fund related operational and administrative functions.

Your Committee received testimony in support of this measure from the Department of Taxation. The Office of the Auditor and the Tax Foundation of Hawaii submitted comments.

Act 273, Session Laws of Hawaii 1999, authorized the Department of Taxation to enter into a performance-based contract to acquire the Integrated Tax Information System (ITIMS). A performance-based contract is one in which the State is liable to pay the vendor only if the promised performance is achieved. In



this case, the performance consists of the State collecting more tax revenue than it would have collected if the vendor's services were not used. If the expected benefits are not in fact produced, the vendor does not get paid

As a result of Act 273, the Department saw an outstanding increase in performance of department responsibilities, and successfully proved its ability to increase revenues for the state general fund. The initial ITIMS initiatives increased revenues by more than \$252,000,000 during the five-year project. This revenue was deposited in the State's general fund and represents a four hundred seventy-five per cent return on investment.

Since the ITIMS initiatives represent a significant revenue-generating potential, the Department has proposed a benefits-funded 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. Since under the benefits-funding method, the vendor is responsible for the up-front costs of the upgrades, ninety per cent 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 ten per cent will be transferred to the general fund. As a result, the ITIMS special fund will provide a self-sufficient model to fund ITIMS revenue-generating initiatives, its related tax processing, and its capacity improvements, while providing the general fund with an estimated revenue boost of \$65,200,000 million over five years.

Your Committee finds that for the Department to realize these benefits, an appropriation is needed to initiate the benefits-funded contracts. Your Committee further finds that a new section needs to be added to chapter 231, Hawaii Revised Statutes, and conforming amendments need to be made to section 36-27, 36-60, and 237-31, Hawaii Revised Statutes, to accomplish the purposes of this measure.

Your Committee amended this measure by making further amendments to the new section in chapter 231 by requiring that the Department, when entering into performance-based contracts implement the necessary changes to its automated systems to meet the State's obligations under the Streamlined Sales and Use Tax Agreement and the City and County of Honolulu 0.5 percent surcharge. Your Committees also finds that this measure merits further consideration and accordingly has amended this measure by



inserting an effective date of July 1, 2050, to ensure ongoing discussions on the issue. Technical, nonsubstantive amendments were made to change formatting and correctly reflect the language in the Hawaii Revised Statutes.

As affirmed by the record of votes of the members of your Committee on Media, Arts, Science, and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2382, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2382, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Media, Arts,  
Science, and Technology,

  
CAROL FUKUNAGA Chair



