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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: March 1, 2016

Time: 11:02 A.M.

Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1355, Relating to Fiscal Responsibility.

The Department of Taxation (Department) appreciates the intent of H.B. 1355, and offers the following comments for your consideration.

H.B. 1355 establishes a State Commission on Fiscal Responsibility (CFR) within the Department for administrative purposes as recommended by the 2013 Tax Review Commission (TRC). The CFR shall: (1) identify policies for the State to improve revenue enhancement in the medium term and to achieve fiscal security over the long term; (2) research and propose recommendations related to State spending; and (3) identify steps needed to improve tax policy to create a more balanced and progressive tax structure. The CFR must submit its findings and recommendation to the legislature no later than thirty days prior to the convening of the regular session of 2017. The bill is effective on July 1, 2015.

The CFR consists of the following members: 2 members to be appointed by the Governor, at least 1 member of whom is currently serving or has formerly served on the Council on Revenues; 2 members of the Senate, to be appointed by the President of the Senate, to serve as co-chair of the CFR; 2 members of the House, to be appointed by the Speaker of the House, to serve as co-chair of the CFR; the Director of Taxation or designee; the Director of Finance or designee; 1 representative from the Legal Aid Society of Hawaii; and 1 representative from the Tax Foundation of Hawaii. The members of the CFR will serve without compensation; but shall be reimbursed for necessary expenses, including travel expenses, incurred in the performance of their official duties.

The Department notes that H.B. 1355 is carried over from the 2015 regular session and believes that the intent of the Legislature was to provide the CFR with at least one year to organize and prepare its report. Therefore, the Department suggests that Section 2, subsections (e) and (f), and Section 3 be amended as follows:

(e) The commission shall submit a report of its findings and recommendations to the legislature no later than twenty days prior to the convening of the regular session of ~~2017~~ 2018. The report shall require the approval of at least two-thirds of the total commission members.

(f) The commission shall cease to exist on June 30, ~~2017~~ 2018.

SECTION 3. This Act shall take effect on July 1, ~~2015~~ 2016.

Additionally, while the Department is able to provide some administrative support, it is not sufficiently staffed to conduct the type of analysis and reporting outlined in this measure. The scope of study set forth in this measure is similar to issues addressed by the Tax Review Commission, which historically hires consultants to conduct the studies. In H.B. 2393, the Department has requested an appropriation of \$250,000 for the Tax Review Commission to conduct such studies.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: MISCELLANEOUS, Establish commission on fiscal responsibility

BILL NUMBER: HB 1355

INTRODUCED BY: MIZUNO, CACHOLA, EVANS, LUKE, MORIKAWA, SAIKI, SAN BUENAVENTURA, SOUKI

EXECUTIVE SUMMARY: Establishes a commission on fiscal responsibility and reform similar to the federal Simpson-Bowles commission.

BRIEF SUMMARY: Establishes a state commission on fiscal responsibility within the department of taxation for administrative purposes. Provides that the commission shall consist of ten members: two to be appointed by the governor, one of whom shall be serving or have served on the council on revenues; two members of the Senate, one of whom shall co-chair the commission; two members of the House, one of whom shall co-chair the commission; the director of taxation or designee; the director of finance or designee; a representative from the Legal Aid Society of Hawaii; and a representative from the Tax Foundation of Hawaii.

Provides that the commission shall identify policies for the State to improve revenue enhancement in the medium term and to achieve fiscal security over the long term; research and propose recommendations related to state spending; and identify steps needed to improve tax policy to create a more balanced and progressive tax structure.

Provides that the commission shall submit a report 20 days prior to the convening of the regular legislative session of 2017. The report shall require the approval of at least 2/3 of the total commission members.

EFFECTIVE DATE: July 1, 2015.

STAFF COMMENTS: As the bill recites, one of the recommendations of the 2010-2012 Tax Review Commission was to establish a commission similar to that on the federal level:

The TRC believes that, given the magnitude of the projected budget shortfall, policy makers should give serious consideration to establishing a commission similar to the National Commission on Fiscal Responsibility and Reform (also known as the “Simpson-Bowles Commission”), which was created at the federal level. Such a commission, with its singular focus, will provide a “drill down” study and recommendations that should be of great value to policy makers.

The original proposal for the federal commission came from bipartisan legislation that would have required Congress to vote on its recommendations as presented, without any amendment. In January 2010, that bill failed in the Senate by a vote of 53–46, when six Republicans who had co-sponsored it nevertheless voted against it. Thereafter, President Obama established the Commission by Executive Order 13531. The Commission met and a report was drafted, but the

Commission was unable to muster the two-thirds majority necessary to approve the report. We would hope that we do not have similar political gridlock in Honolulu.

HRS chapter 232E establishes the Tax Review Commission, the duties of which are to conduct a systematic review of the State's tax structure, using such standards as equity and efficiency. A Tax Review Commission was supposed to have been appointed in 2015, but the Governor failed to appoint persons to the commission in that year; a commission is supposed to be appointed this year. One question is whether the TRC and the commission that this bill envisions are going to be treading the same ground.

We note that this bill was introduced in the 2015 legislative session and the bill has carried over. The effective date of the bill and the due date of the report probably should be advanced one year to allow sufficient time for this commission to work if the legislature decides to establish it.

Digested 2/26/2016

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Honolulu, Hawaii 96826
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29 February 2016

Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair
Committee on Finance

Hearing: Tuesday, 1 March 2016
11:02 am
Conference Room 308

RE: HB 1355 – RELATING TO FISCAL RESPONSIBILITY

IN STRONG SUPPORT

This bill was drafted based on a recommendation in the 2013 Tax Review Commission report. In their report they recommended a commission similar to the Federal "National Commission on Fiscal Responsibility and Reform" (aka the Simpson-Bowles Commission). The Tax Commission was concerned about the magnitude of the projected shortfall by 2022 (Fujino-Rousslang study) or 2025 (PFM study).

Although the Simpson-Bowles Commission was composed primarily of senators and congressmen, experts from outside the legislature have been included in this commission. To include a broader range of expertise, consideration might be given to add an advocate from organized labor, an advocate for the low income population and a member of the most recent Tax Review Commission. To give the commission time to do its job I would also recommend adjusting the effective date to 2016 and the completion date to June 30, 2018.

Finally, the cost of assembling this commission could be miniscule compared to the long term benefits that should result from their recommendations.



From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 29, 2016 3:10 PM
To: FINTestimony
Cc: jasmineramos808@yahoo.com
Subject: Submitted testimony for HB1355 on Mar 1, 2016 11:02AM

HB1355

Submitted on: 2/29/2016

Testimony for FIN on Mar 1, 2016 11:02AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Jasmine Ramos	Individual	Support	No

Comments: To Chair Luke, Vice Chair Nishimoto and the Finance Committee, I provide testimony in strong support for HB1355 Relating to Fiscal Responsibility. The Bill was drafted following the recommendation of the Tax Review Commission report of 2013. Moreover, the bill is similar to what the federal government did via the Federal National Commission on Fiscal Responsibility and Reform. HB1355 responds to the public with transparency and accountability by reviewing and making recommendations to the current state system of expenditures and revenue enhancement. The commission would review both enhancement of revenue via taxes and proper expenditure, thus promoting long-term financial stability for the state and its' residents. Thank you for allowing me to provide testimony in strong support for HB1355. Sincerely, Jasmine Ramos

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 29, 2016 7:30 PM
To: FINTestimony
Cc: smith808143@yahoo.com
Subject: Submitted testimony for HB1355 on Mar 1, 2016 11:02AM

HB1355

Submitted on: 2/29/2016
Testimony for FIN on Mar 1, 2016 11:02AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Lisa Smith	Individual	Support	No

Comments: To Finance Chair Luke and Vice Chair Nishimoto and the Committee, I submit testimony in strong support for HB1355 to establish a Commission within the Department of Taxation to review and make recommendations on two major issues - 1. taxes - which represents revenue enhancement, tax policy, and second State expenditures which affects the entire State Budget. Such a Commission can take a deep look into tax and revenue policy as well as spending, to reduce wasteful spending and focus on a prudent State Budget. For all of the foregoing reasons, I am in strong support of HB1355. Mahalo for the opportunity to provide testimony in strong support of this measure. Lisa Smith

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