



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

July 11, 2017

GOV. MSG. NO. 1270

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

I am transmitting herewith SB713 SD1 HD1 CD1, without my approval and with the statement of objections relating to the measure.

SB713 SD1 HD1 CD1

RELATING TO BUDGET DOCUMENTS

Sincerely,

DAVID Y. IGE
Governor, State of Hawai'i

EXECUTIVE CHAMBERS

HONOLULU

July 11, 2017

STATEMENT OF OBJECTIONS TO SENATE BILL NO. 713

Honorable Members
Twenty-Ninth Legislature
State of Hawai'i

Pursuant to Section 16 of Article III of the Constitution of the State of Hawai'i, I am returning herewith, without my approval, Senate Bill No. 713, entitled "A Bill for an Act Relating to Budget Documents."

The purpose of this bill is to require the inclusion in the state's six-year program and financial plan and budget, information on tax expenditures, which are exemptions, deductions, credits, exclusions, or other deviations from the normal tax structure as determined by the Department of Taxation.

This bill is objectionable because chapter 23, Hawaii Revised Statutes, already requires the State Auditor to conduct periodic reviews of certain credits, exemptions, exclusions, and deductions under the various State taxes pursuant to a ten-year schedule. Chapter 23 specifies that these periodic reviews include amounts of the tax expenditures for the previous three years, the current year, and the ensuing two years. The chapter 23 information encompasses, for the most part, the additional reporting required in this bill.

Further, the Department of Taxation does not have the resources to undertake the necessary annual studies to provide the required information on a timely manner to meet budget preparation deadlines for submittal of the biennium and supplemental budgets.

STATEMENT OF OBJECTIONS
SENATE BILL NO. 713
Page 2

For the foregoing reasons, I am returning Senate Bill No. 713 without my approval.

Respectfully,

A handwritten signature in black ink, appearing to read "David Y. Ige". The signature is fluid and cursive, with a large, sweeping flourish at the end.

DAVID Y. IGE
Governor of Hawai'i

P R O C L A M A T I O N

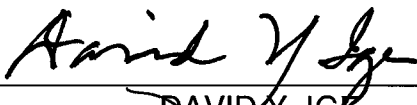
WHEREAS, under Section 16 of Article III of the Constitution of the State of Hawai'i, the Governor is required to give notice, by a proclamation, of the Governor's plan to return with the Governor's objections any bill presented to the Governor less than ten days before adjournment sine die or presented to the Governor after adjournment sine die of the Legislature; and

WHEREAS, Senate Bill No. 713, entitled "A Bill for an Act Relating to Budget Documents," passed by the Legislature, was presented to the Governor within the aforementioned period; and

WHEREAS, Senate Bill No. 713 is unacceptable to the Governor of the State of Hawai'i;

NOW, THEREFORE, I, DAVID Y. IGE, Governor of the State of Hawai'i, do hereby issue this proclamation, pursuant to the provisions of Section 16 of Article III of the Constitution of the State of Hawai'i, giving notice of my plan to return Senate Bill No. 713 with my objections thereon to the Legislature as provided by said Section 16 of Article III of the Constitution.

DONE at the State Capitol, Honolulu,
State of Hawai'i, this 11
day of July, 2017.



DAVID Y. IGE
Governor of Hawai'i

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.

APPROVED this day of , 2017

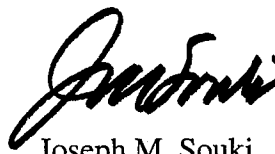
GOVERNOR OF THE STATE OF HAWAII

SB No. 713, SD 1, HD 1, CD 1

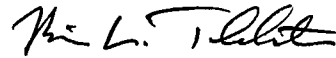
THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2017.



Joseph M. Souki
Speaker
House of Representatives





Brian L. Takeshita
Chief Clerk
House of Representatives

THE SENATE OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the
Senate of the Twenty-ninth Legislature of the State of Hawaii, Regular Session of 2017.


President of the Senate


Clerk of the Senate