

JAN 17 2014

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# A BILL FOR AN ACT

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RELATING TO STATE FINANCIAL ADMINISTRATION.

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

1       SECTION 1. The legislature finds that although the State's  
2 financial plans and executive budgets are fairly detailed, they  
3 continue to fall short of adequately explaining and justifying  
4 the State's expenditures. A new approach to the budgeting  
5 process is required to ensure that the State expends taxpayer  
6 funds effectively and efficiently.

7       Zero based budgeting involves formulating a financial plan  
8 or budget based on the initial premise that no funds have been  
9 authorized for any programs. This requires state agencies to  
10 evaluate their entire operations and justify each program,  
11 activity, and expense every fiscal year. The legislature finds  
12 that including this approach into the current budgeting process  
13 will assist in reducing economic waste and ensuring that  
14 worthwhile programs continue.

15       The purpose of this Act is to incorporate zero based  
16 budgeting principles into the State's current financial planning  
17 and budgeting processes beginning with fiscal biennium 2015-2017  
18 and thereafter.



SECTION 2. Section 37-68, Hawaii Revised Statutes, is amended to read as follows:

**"§37-68 Responsibilities of agencies.** Under such rules as may be prescribed by the director of finance with the approval of the governor:

(1) Every agency assigned the task of developing programs and preparing program and financial plans, budgetary requests, and program performance reports shall develop such programs and prepare such plans, requests, and reports and submit the same to the director of finance at such times, on such forms, and in such manner as the director may prescribe. For informational purposes, the University of Hawaii shall submit its program and financial plans, budgetary requests, and program performance reports to the legislature at the same time the university submits them to the director of finance. Where new programs are being proposed, every agency shall demonstrate that the program:

(A) Is an appropriate function of state government; and, as applicable;



1 (B) Can be implemented by the public sector as cost-  
2 effectively as the private sector while meeting  
3 the same plans, goals, objectives, standards,  
4 measures of effectiveness, wage, salary,  
5 conditions of employment, and employee benefit  
6 programs of the State;

7 (2) In addition to the requirements of this chapter, every  
8 agency assigned the task of developing programs and  
9 preparing program and financial plans, budgetary  
10 requests, and program performance reports shall  
11 develop such programs and prepare such plans,  
12 requests, and reports by:

13 (A) First assuming that the agency has no authorized  
14 funds;

15 (B) Enumerating the goals and objectives of the  
16 agency; and

17 (C) Enumerating each specific activity required to  
18 accomplish the goals and objectives of the  
19 agency, including a justification of each  
20 activity, the cost of each activity, and the  
21 number of personnel required to conduct each  
22 activity;



1       ~~[(2)]~~ (3) Every agency administering state programs and  
2           every agency responsible for the formulation of  
3           programs and the preparation of program and financial  
4           plans, budgetary requests, and program performance  
5           reports, shall furnish the department of budget and  
6           finance all such documents and information as the  
7           department may from time to time require. Each agency  
8           shall make available to the legislature and any member  
9           or committee of either house of the legislature, all  
10          documents and information as may be requested; and  
11       ~~[(3)]~~ (4) The director of finance or any employee of the  
12           department of budget and finance, when duly  
13           authorized, for the purpose of securing information,  
14           shall have access to and may examine any books,  
15           documents, papers, or records of any agency."

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

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

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



- 1 (A) Population: Including historical, current, and  
2 projected population count; population  
3 distribution by age and sex; estimated increases  
4 and decreases, including increases and decreases  
5 by immigration;
- 6 (B) Employment: Including magnitude of labor force by  
7 age and sex; labor force participation rates;  
8 employment by age and sex; industry and  
9 occupational surpluses and shortages; effects of  
10 government programs on employment rate;
- 11 (C) Income: Including per capita and per family  
12 income; disposable income; income distribution;
- 13 (D) Wages and prices: Including wages by industry and  
14 occupational groups; prices for government  
15 procurement items; construction costs; cost of  
16 living index; price indices for components of  
17 personal consumption;
- 18 (E) Industry and business trends; and
- 19 (F) Effects of national economic and financial  
20 policies and conditions;



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

4           (A) The previous projections for the last completed  
5           fiscal year and the fiscal year in progress;

6           (B) The variance between the projections and the  
7           actual or revised estimate, and the reasons for  
8           the variances;

9           (C) Tax or source base and rates;

10          (D) Yield projections of existing revenue sources and  
11          existing taxes at authorized rates;

12          (E) Assumptions made and methodology used in  
13          projections;

14          (F) Changes recommended; and

15          (G) Projected yields if changes are adopted; etc.;

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

18          (A) A justification for the program that:

19               (i) Assumes there are no authorized funds for  
20               the program;



1           (ii) Describes how the program fulfills the goals  
2                   and objectives of the agency implementing  
3                   the program; and

4           (iii) Specifies each specific activity of the  
5                   program required to fulfill the goals and  
6                   objectives, the number of personnel required  
7                   to conduct each activity, and the cost of  
8                   each activity;

9           ~~[(A)]~~ (B) The total actual program cost for the last  
10                   completed fiscal year, the estimated cost for the  
11                   fiscal year in progress, and the estimated cost  
12                   for each of the next six fiscal years; research  
13                   and development, operating, and capital costs  
14                   shall be included and the means of financing  
15                   shall be identified. The number of personnel  
16                   positions and all lease payments shall be shown  
17                   for the program, identified by their means of  
18                   financing;

19           ~~[(B)]~~ (C) The program size indicators; the actual size  
20                   attained in the last completed fiscal year, the  
21                   estimated size for the fiscal year in progress,



1 and the estimated size for each of the next six  
2 fiscal years; and

3 [~~(C)~~] (D) The effectiveness measures; the actual level  
4 of effectiveness attained in the last completed  
5 fiscal year, the estimated level of effectiveness  
6 for the fiscal year in progress, and the  
7 estimated level for each of the next six fiscal  
8 years;

9 (4) Appropriate displays of paragraph [~~(3)(A)~~] (3)(B) and  
10 [~~(C)~~], (D), at every level of the state program  
11 structure above the lowest level, by the major  
12 groupings of programs encompassed within the level.  
13 The displays of [~~(3)(A)~~] (3)(B) shall  
14 appropriately identify the means of financing and the  
15 number of positions included in the level;

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

20 (A) A display of the programmed, total state  
21 expenditures, by cost categories, the total state  
22 resources anticipated from existing tax and





1 nontax sources at existing rates, by resource  
2 categories, including the fund balance or deficit  
3 at the beginning of the fiscal year and bond  
4 receipts, and the resulting fund balance or  
5 deficit at the close of each fiscal year. Lease  
6 payments in each cost category shall be stated  
7 separately; and

8 (B) The changes proposed to the existing tax and  
9 nontax rates, sources or structure, and the  
10 estimated increases or reductions in revenues,  
11 the estimated cumulative increases or reductions,  
12 and the estimated fund balance or deficit in each  
13 of the next six fiscal years as a result of such  
14 proposed changes. Proposals for changes in the  
15 existing tax and nontax rates, sources or  
16 structure shall be made in every case where the  
17 proposed, total state expenditures exceed the  
18 total resources anticipated from existing tax and  
19 nontax sources at existing rates.

20 Such financial summaries shall be prepared for the  
21 total state expenditures and resources and for the  
22 general fund and special fund portions thereof;



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

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

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

18          (B) By bond categories, the total, cumulative balance  
19          of bonds authorized in prior years but unissued  
20          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) 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 changes; and

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

(9) A summary of the State's total payments due under financing agreements required to carry out the



1 recommended programs and the kinds of financing  
2 agreements and amounts thereof through which the  
3 requirements were met in the last completed fiscal  
4 year, are to be met in the fiscal year in progress,  
5 and are proposed to be met in each of the next six  
6 fiscal years. The summary shall detail, for each  
7 fiscal year:

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

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

18 (C) A recapitulation of the total financing  
19 agreements to be executed and delivered,  
20 including both new authorizations and prior  
21 authorizations, by cost categories."



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

3       "(c) The display of financial requirements for the ensuing  
4 two fiscal years shall more specifically include:

5       (1) At the lowest level on the state program structure,  
6 for each program:

7       (A) A justification for the program that:

8           (i) Assumes there are no authorized funds for  
9           the program;

10          (ii) Describes how the program fulfills the goals  
11          and objectives of the agency implementing  
12          the program; and

13          (iii) Specifies each specific activity of the  
14          program required to fulfill the goals and  
15          objectives, the number of personnel required  
16          to conduct each activity, and the cost of  
17          each activity;

18       ~~[-A-]~~ (B) The total recommended expenditures,  
19 including research and development, capital and  
20 operating costs, by cost categories and cost  
21 elements for the ensuing biennium; the planned  
22 allocation of the total biennial request, by cost



1 categories, and cost elements, between the two  
2 fiscal years of the biennium. The means of  
3 financing and the number of positions included in  
4 any cost category amount shall be appropriately  
5 identified;

6 ~~[(B)]~~ (C) A summary showing means of financing the  
7 total recommended expenditures, those amounts  
8 requiring and those amounts not requiring  
9 legislative appropriation or authorization for  
10 spending in each fiscal year of the biennium;

11 ~~[(C)]~~ (D) A crosswalk of the total proposed biennial  
12 expenditures between the program and expending  
13 agencies. The means of financing the number of  
14 positions and the lease payments included in any  
15 cost amount, and the net amount requiring  
16 appropriation or authorization shall be  
17 appropriately identified for each expending  
18 agency; and

19 ~~[(D)]~~ (E) The proposed changes in the levels of  
20 expenditures, by cost categories, between the  
21 biennium in progress and the ensuing biennium,  
22 together with a brief explanation of the major



1 reasons for each change. The reasons shall  
2 include, as appropriate, the following:

3 (i) Salary adjustments to existing positions of  
4 personnel;

5 (ii) The addition or deletion of positions;

6 (iii) Changes in the number of persons being  
7 served or to be served by the program;

8 (iv) Changes in the program implementation  
9 schedule;

10 (v) Changes in the actual or planned level of  
11 program effectiveness;

12 (vi) Increases due to the establishment of a  
13 program not previously included in the  
14 State's program structure;

15 (vii) Decreases due to the phasing out of a  
16 program previously included in the State's  
17 program structure; and

18 (viii) Changes in the purchase price of goods or  
19 services;

20 As appropriate, references to the program and  
21 financial plan shall be noted for an explanation of  
22 the changes. Notwithstanding the provisions of



1 subsection (b)(5), the proposed changes in the levels  
2 of expenditures may be shown to the nearest thousand  
3 dollars;

4 (2) Appropriate summaries of paragraph [~~(1)(A)~~] (1)(B) and  
5 [~~(C)~~] (D) immediately above at every level of the  
6 state program structure above the lowest level. Such  
7 summaries shall be by the major groupings of programs  
8 encompassed within the level. The summaries of  
9 paragraph [~~(1)(A)~~] (1)(B) shall identify the means of  
10 financing and the number of positions and the lease  
11 payments included in any cost category amount; and

12 (3) A summary listing of all capital improvement projects  
13 included in the proposed capital investment costs for  
14 the ensuing biennium. The listing shall be by  
15 programs at the lowest level of the state program  
16 structure and shall show for each project, by  
17 investment cost elements:

18 (A) The cost of the project;

19 (B) The amount of funds previously appropriated and  
20 authorized by the legislature; and

21 (C) The amount of new appropriations and

22 authorizations proposed in each of the two fiscal





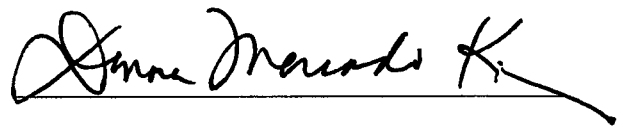
1                years of the ensuing biennium and in each of the  
2                succeeding four years. The amount of the new  
3                appropriations and authorizations proposed shall  
4                constitute the proposed new requests for the  
5                project in each of the fiscal bienniums.

6                In every instance, the means of financing shall be  
7                noted."

8                SECTION 5. Statutory material to be repealed is bracketed  
9                and stricken. New statutory material is underscored.

10              SECTION 6. This Act shall take effect on July 1, 2014;  
11              provided that sections 2, 3, and 4 shall apply to the state  
12              financial plans and budgets for fiscal biennium 2015-2017 and  
13              thereafter.

14  
INTRODUCED BY:



# S.B. NO. 2276

**Report Title:**

State Financial Administration; State Budget; Zero Based Budgeting

**Description:**

Requires that the state financial plan and budget be developed under the assumption that no funds have been authorized and that each expenditure be justified. Applies to the 2015-2017 fiscal biennium and thereafter.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

