GOV. MSG. NO. 1247

EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

June 26, 2015

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

The Honorable Joseph M. Souki,
Speaker and Members of the
House of Representatives
Twenty-Eighth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

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

This is to inform you that on June 26, 2015, the following bill was signed into law:

SB158 SD1 HD1 CD1 — RELATING TO THE BUDGET DOCUMENTS
ACT 146 (15)

Sincerely,

DAVID Y. IGE
Governor, State of Hawai'i

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SENATE
OFFICE OF THE PRESIDENT

'15 JUN 30 A10:26

RECEIVED
THE SENATE
CLERK'S OFFICE
STATE OF HAWAII

'15 JUN 30 P3:16

Approved by the Governor
on JUN 26 2015

THE SENATE
TWENTY-EIGHTH LEGISLATURE, 2015
STATE OF HAWAII

ACT 146

S.B. NO. 158 S.D. 1 H.D. 1 C.D. 1

A BILL FOR AN ACT

RELATING TO THE BUDGET DOCUMENTS.

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

SECTION 1. The purpose of this Act is to address the budget documents.

More specifically, this Act requires the six-year program and financial plan and budget to include information on pension liability and other post-employment benefits liability.

The legislature finds that this information is necessary to promote transparency in state budgeting and future cost.

SECTION 2. Section 37-62, Hawaii Revised Statutes, is amended by adding four new definitions to be appropriately inserted and to read as follows:

""Annual required contribution" means the State's required contribution to the employees' retirement system or Hawaii employer-union health benefits trust fund, as applicable, that is sufficient to cover:

(1) The normal cost, which is the cost of other post-employment benefits attributable to the current year of service; and

(2) An amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years.

"Funded ratio" means the ratio of net assets to net liabilities of the employees' retirement system or Hawaii employer-union health benefits trust fund, as applicable, as determined by actuarial valuation.

"Funding period" means the number of years in the future that will be required to fully fund the unfunded actuarial accrued liability of the employees' retirement system or Hawaii employer-union health benefits trust fund, as applicable, based upon actuarial assumptions and no assumed future actuarial gains or losses.

"Unfunded actuarial accrued liability" means the portion of the actuarial accrued liability, including the present value of benefits presently being paid to retirees, that exceeds the value of current assets."

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

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

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

(A) Population: Including historical, current, and projected population count; population distribution by age and sex; estimated increases and decreases, including increases and decreases by immigration;

(B) Employment: Including magnitude of labor force by age and sex; labor force participation rates; employment by age and sex; industry and occupational surpluses and shortages; effects of government programs on employment rate;

(C) Income: Including per capita and per family income; disposable income; income distribution;

(D) Wages and prices: Including wages by industry and occupational groups; prices for government procurement items; construction costs; cost of living index; price indices for components of personal consumption;

(E) Industry and business trends; and

(F) Effects of national economic and financial policies and conditions;

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

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

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

(C) Tax or source base and rates;

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

(E) Assumptions made and methodology used in projections;

(F) Changes recommended; and

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

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

(A) The total actual program cost for the last completed fiscal year, the estimated cost for the

fiscal year in progress, and the estimated cost for each of the next six fiscal years; research and development, operating, and capital costs shall be included and the means of financing shall be identified. The number of personnel positions and all lease payments shall be shown for the program, identified by their means of financing;

(B) The program size indicators; the actual size attained in the last completed fiscal year, the estimated size for the fiscal year in progress, and the estimated size for each of the next six fiscal years; and

(C) The effectiveness measures; the actual level of effectiveness attained in the last completed fiscal year, the estimated level of effectiveness for the fiscal year in progress, and the estimated level for each of the next six fiscal years;

(4) Appropriate displays of paragraph (3)(A) and (C), at every level of the state program structure above the

lowest level, by the major groupings of programs encompassed within the level. The displays of [~~(~~]paragraph[~~)~~] (3)(A) shall appropriately identify the means of financing and the number of positions included in the level;

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

(A) A display of the programmed, total state expenditures, by cost categories, the total state resources anticipated from existing tax and nontax sources at existing rates, by resource categories, including the fund balance or deficit at the beginning of the fiscal year and bond receipts, and the resulting fund balance or deficit at the close of each fiscal year. Lease payments in each cost category shall be stated separately; and

(B) The changes proposed to the existing tax and nontax rates, sources or structure, and the

estimated increases or reductions in revenues, the estimated cumulative increases or reductions, and the estimated fund balance or deficit in each of the next six fiscal years as a result of such proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.

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

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

(7) A summary of the State's total bond fund required to carry out the recommended programs and the kinds of bonds and amounts thereof through which the requirements were met in the last completed fiscal

year, are to be met in the fiscal year in progress, and are proposed to be met in each of the next six fiscal years. The summary shall detail, for each fiscal year:

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

(B) By bond categories, the total, cumulative balance of bonds authorized in prior years but unissued 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 recommended programs and the kinds of financing agreements and amounts thereof through which the requirements were met in the last completed fiscal year, are to be met in the fiscal year in progress, and are proposed to be met in each of the next six fiscal years. The summary shall detail, for each fiscal year:

1 (A) Of the total financing agreement requirements,
2 the amount, by cost categories, requiring new
3 financing agreement authorizations and the kinds
4 and amounts of financing agreements planned for
5 execution and delivery under such new
6 authorizations;
7 (B) By cost category, the cumulative balance of
8 financing agreements authorized in prior years
9 but not executed and delivered and the amount
10 proposed to be executed and delivered; and
11 (C) A recapitulation of the total financing
12 agreements to be executed and delivered,
13 including both new authorizations and prior
14 authorizations, by cost categories[~~.~~]; and
15 (10) A summary of the state government's pension liability
16 and other post-employment benefit liability for which
17 the most current information is available, including:
18 (A) Unfunded actuarial accrued liability specified in
19 the latest actuarial valuation report available
20 in the pertinent fiscal year;

(B) Funded ratio specified in the latest actuarial valuation report available in the pertinent fiscal year;

(C) Funding period specified in the latest actuarial valuation report available in the pertinent fiscal year; and

(D) Annual required contribution for the pertinent fiscal year and the proportion of the annual required contribution budgeted to be paid in that fiscal year."

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

"(d) The summaries of the state receipts and revenues shall more specifically include:

(1) Financial summaries displaying the State's financial condition, to-wit:

(A) A display of the proposed, total state expenditures, by cost categories, the total state resources anticipated from existing taxes and nontax sources at existing rates, by resource categories (including the available fund balances

1 or deficits and anticipated bond receipts), and
2 the fund balance or deficit resulting therefrom
3 for the biennium in progress, for the ensuing
4 biennium, and for each of the two fiscal years of
5 the ensuing biennium; and
6 (B) The changes proposed to the existing tax and
7 nontax rates, sources, or structure, and the
8 estimated cumulative increases or reductions, and
9 the estimated fund balance or deficit in the
10 ensuing biennium and in each of the two fiscal
11 years of the biennium as a result of such
12 proposed changes. Proposals for changes in the
13 existing tax and nontax rates, sources, or
14 structure shall be made in every case where the
15 proposed, total state expenditures exceed the
16 total state resources anticipated from existing
17 tax and nontax sources at existing rates.
18 Such financial summaries shall be prepared for the
19 total state expenditures and resources and for the
20 general fund and special fund portions thereof;

(2) A summary of the balances of each special fund, actual for the last completed fiscal year and estimated for the fiscal year in progress and for each of the two fiscal years in the ensuing biennium;

(3) A summary of the State's total bond fund required to carry out the recommended programs and the kinds of bonds and amounts thereof through which such requirements are to be met in the biennium in progress and in each of the two fiscal years in the ensuing biennium. The summary shall detail for the biennium in progress and for each of the two years of the ensuing biennium:

(A) Of the total requirements, the amount, by cost categories, requiring new bond issuance authorization and the kinds and amounts of bonds planned for issuance under such new authorization;

(B) By bond categories, the total, cumulative balance of bonds authorized in prior years but unissued and the amount thereof planned to be issued; and

(C) A recapitulation of the total bonds, both new authorizations and prior authorizations, by bond categories, proposed to be issued;

(4) A tentative schedule by quarter and fiscal year of the amount of general obligation bonds and the amount of revenue bonds proposed to be issued in the ensuing fiscal biennium;

(5) A schedule of projected debt service charges for general obligation bonds outstanding at the time of the submission of the budget and to be issued by the close of the budget biennium in progress and the close of the ensuing budget biennium. The projection shall be separately stated for:

(A) Bonds currently outstanding;

(B) Bonds to be issued during the remainder of the fiscal biennium in progress and during the ensuing fiscal biennium; and

(C) The total bonds currently outstanding and to be issued.

In each case, the projection shall be categorized into debt service to be paid directly from the general

fund, debt service to be paid through reimbursements, and total debt service. The projection shall extend at least five years beyond the close of the ensuing fiscal biennium. An explanation shall be appended to the schedule, which shall include among other things, the amount of bonds to be issued during the fiscal year in progress and in each of the two fiscal years of the ensuing biennium, the maturities of the bonds to be issued, the method of retirement, and the interest rate assumed in the projection;

(6) A schedule of the current state funded debt, legal debt limit, and the legal debt margin, including the details thereof. In any budget which proposes appropriations for which the source of funding is general obligation bonds, the schedule shall include a declaration by the director of finance and computations showing that the total amount of principal and interest, estimated for such proposed appropriations and for all bonds authorized and unissued and calculated for all bonds issued and

outstanding, will not cause the debt limit to be exceeded at the time of issuance;

(7) 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 two fiscal years in the ensuing biennium, with appropriate totals for the two bienniums;

(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 two years in the ensuing fiscal biennium resulting from such changes; and

(C) The total estimated revenues with and without the proposed changes; [~~and~~]

(8) A summary of the State's total payments due under financing agreements required to carry out the recommended programs and the kinds of financing agreements and amounts thereof through which [~~such~~] those requirements are to be met in the biennium in progress and in each of the two fiscal years in the ensuing biennium. The summary shall detail for the biennium in progress and for each of the two years of the ensuing biennium:

(A) Of the total financing agreement requirements, the amount, by cost categories, requiring new financing agreement authorizations and the kinds and amounts of financing agreements planned for execution and delivery under [~~such~~] the new authorizations;

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

(C) A recapitulation of the total financing agreements to be executed and delivered, including both new authorizations and prior authorizations, by cost categories[~~.~~]; and

(9) The same information required under section 37-69(c)(10) for the state government's pension and other post-employment benefits liabilities."

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

SECTION 6. This Act shall take effect on July 1, 2016, and shall apply to the six-year program and financial plan, budget, and supplemental budget submitted to the legislature, for the regular session of 2017.

APPROVED this 26 day of JUN, 2015

GOVERNOR OF ~~THE~~ STATE OF HAWAII