

ACT 210

S.B. NO. 724

A Bill for an Act Relating to Non-Discretionary Costs.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The purpose of this Act is to address non-discretionary costs by requiring the department of budget and finance to report certain data on non-discretionary costs for fiscal year 2018-2019 and fiscal year 2019-2020. The data are intended to provide alternative views of the burden of non-discretionary costs on the general fund.

The legislature finds that data on the impacts and trends of non-discretionary costs paid with general funds are necessary to provide indicators regarding the budgetary situation of the State. If the burden of non-discretionary costs, especially fixed costs for debt service and state employee fringe benefits, becomes too high, support for other worthy discretionary programs may suffer. In order to avoid this predicament, the legislature finds that monitoring of the non-discretionary cost burden must be constant and vigilant. The legislature requires data on impacts and trends in order to make corrective actions early before the advent of crises.

The legislature further finds that the state debt affordability study submitted in December of 2016 by the department of budget and finance pursuant to chapter 37C, part II, Hawaii Revised Statutes, includes various indicators of the state debt and fixed costs burden. The data required by this Act are intended to supplement the findings of that study and future studies.

This Act requires the department of budget and finance to submit estimates of certain non-discretionary cost burden indicators for fiscal year 2018-2019 and fiscal year 2019-2020.

The legislature recognizes that state resources would need to be committed to collecting, preparing, and reporting the estimates. The legislature finds that consideration should be given to whether the benefit gained by the additional budgetary information outweighs the possible negative impacts of diverting state resources from other duties.

SECTION 2. For the purpose of this Act:

“Expenditures in a fiscal year of the general fund appropriations for non-discretionary costs for that fiscal year” means the sum of the following:

- (1) Expenditures in the specified fiscal year of the general funds appropriated to be expended for non-discretionary costs; and
- (2) Encumbrances on June 30 of the specified fiscal year of the general funds appropriated to be expended for non-discretionary costs.

The “expenditures in the specified fiscal year” under paragraph (1) shall not include any expenditures in the specified fiscal year of an encumbrance that existed on June 30 of any year previous to the specified fiscal year.

“Fixed costs” means the following types of costs:

- (1) Debt service payments for general obligation bonds;
- (2) Employer contributions for pension and retirement benefits of state government employees; and
- (3) Employer contributions for health insurance benefits of state government employees and state government retirees.

“Gross state product” means the value added in production by the labor and property located in the State, as identified or estimated by the department of business, economic development, and tourism by reference to another source or its own calculation.

“Medicaid service costs” means the costs of services provided to low-income persons under the medical assistance programs administered by the department of human services pursuant to section 346-14(7), Hawaii Revised Statutes, and funded in part under Title XIX of the federal Social Security Act, as amended. The term does not include the costs of management, administrative, or other overhead services performed by the department of human services for medicaid.

“Modified general funded non-discretionary costs coverage ratio for a fiscal year” means the ratio calculated for the specified fiscal year by dividing the difference under paragraph (1) by the difference under paragraph (2):

- (1) The difference between:

- (A) General fund revenues collected in the specified fiscal year; and
 - (B) General fund revenues collected in the fiscal year previous to the specified fiscal year; and
- (2) The difference between:
- (A) Expenditures in the fiscal year of the general fund appropriations for non-discretionary costs in the specified fiscal year; and
 - (B) Expenditures in the previous fiscal year of the general fund appropriations for non-discretionary costs in the fiscal year previous to the specified fiscal year.

“Non-discretionary costs” means fixed costs and medicaid service costs.

“Per capita general funded non-discretionary costs for a fiscal year” means the amount of general funded non-discretionary costs per resident of the State, calculated by dividing the amount under paragraph (1) by the amount under paragraph (2):

- (1) The expenditures of the general fund appropriations for non-discretionary costs in the specified fiscal year; and
- (2) The resident population of the State in the specified fiscal year, as identified or estimated by the department of business, economic development, and tourism by reference to another source or its own calculation.

“Percentage of general funded non-discretionary costs to general fund revenues for a fiscal year” means the percentage calculated by dividing the amount under paragraph (1) by the amount under paragraph (2):

- (1) The expenditures of the general fund appropriations for non-discretionary costs in the specified fiscal year; and
- (2) The general fund revenues collected in the specified fiscal year.

“Percentage of general funded non-discretionary costs to gross state product” means the percentage calculated by dividing the amount under paragraph (1) by the amount under paragraph (2):

- (1) The expenditures of the general fund appropriations for non-discretionary costs in the specified fiscal year; and
- (2) The gross state product in the specified fiscal year.

“Percentage of general funded non-discretionary costs to personal income” means the percentage calculated by dividing the amount under paragraph (1) by the amount under paragraph (2):

- (1) The expenditures of the general fund appropriations for non-discretionary costs in the specified fiscal year; and
- (2) The personal income in the specified fiscal year.

“Personal income” means the income received by all persons in the State for participation in production, from government and business transfer payments, and from government interest, as identified or estimated by the department of business, economic development, and tourism by reference to another source or its own calculation.

SECTION 3. (a) By January 1, 2019, the department of budget and finance shall submit a report to the governor and legislature that estimates the following for fiscal year 2018-2019 and fiscal year 2019-2020:

- (1) Percentage of general funded non-discretionary costs to general fund revenues for each fiscal year;
- (2) Per capita general funded non-discretionary costs for each fiscal year;
- (3) Percentage of general funded non-discretionary costs to gross state product for each fiscal year;

- (4) Percentage of general funded non-discretionary costs to personal income for each fiscal year; and
 - (5) Modified general funded non-discretionary costs coverage ratio for each fiscal year.
- (b) The report shall include the amounts used to calculate the estimates under subsection (a)(1), (2), (3), (4), and (5).

SECTION 4. The director of finance shall submit to the legislature a recommendation on whether the information required by this Act should be provided annually. The recommendation shall be included in the report required under section 3 of this Act.

SECTION 5. This Act shall take effect on July 1, 2018.

(Became law on July 11, 2017, without the governor's signature, pursuant to Art. III, §16, State Constitution.)