

S.B. NO. 1498

JAN 22 2007

A BILL FOR AN ACT

RELATING TO THE DEPARTMENT OF TAXATION'S BENEFITS-FUNDED
REVENUE-GENERATING COMPUTER INITIATIVES.

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

1 SECTION 1. The purpose of this Act is to provide revenue-
2 generating initiatives that will be benefits-funded, meaning the
3 vendor will only be paid when measurable increases in revenues
4 resulting from the initiatives are collected by the State. The
5 revenues will be used by the department of taxation to enhance
6 its computer system and to streamline related operational
7 procedures. This Act shall be known as the "Continuing
8 Integrated Tax Information Management Systems Revenue-Generating
9 Initiatives Act of 2007."

10 SECTION 2. (a) Notwithstanding any other law to the
11 contrary, the department of taxation may enter into performance-
12 based contracts to enhance or acquire automated tax systems,
13 including computer hardware and software, for the implementation
14 and administration of the taxes imposed under title 14, Hawaii
15 Revised Statutes, including any amendments.

16 (b) For the purposes of this Act:

1 "Performance-based contract" means a contract under which
2 compensation to the vendor shall be computed according to
3 performance standards established by the department of taxation.
4 Any performance-based contract entered into by the department of
5 taxation for such purpose shall provide for the payment of fees:

6 (1) Based on a contractually specified amount of the
7 increase in the amount of taxes, interest, and
8 penalties collected and attributable to the
9 implementation of the revenue-generating initiatives;
10 or

11 (2) On a fixed-fee contract basis to be paid from the
12 increase in the amount of taxes, interest, and
13 penalties collected and attributable to revenue-
14 generating initiatives.

15 (c) Notwithstanding any other law to the contrary, the
16 department of taxation shall award performance-based contracts
17 pursuant to the requirements of chapter 103D, Hawaii Revised
18 Statutes.

19 SECTION 3. The department of taxation shall report to the
20 legislature no later than twenty days prior to the convening of
21 every regular session with respect to the status of any

1 performance-based contract and shall provide an accounting of
2 all moneys appropriated. The report shall include:

- 3 (1) Detailed information on the costs and benefits of
4 implementing the automated tax systems;
- 5 (2) The amount of increased tax, interest, and penalties
6 collected that is attributable to the automated tax
7 systems;
- 8 (3) The amount paid to the vendor or vendors contracted;
9 and
- 10 (4) The information from the preceding fiscal year.

11 SECTION 4. Chapter 231, Hawaii Revised Statutes, is
12 amended by adding a new section to be appropriately designated
13 and to read as follows:

14 "§231- Integrated tax information management systems
15 special fund. (a) There is established in the state treasury
16 the integrated tax information management systems special fund,
17 into which shall be deposited tax revenues as provided by
18 sections 235-119, 237-31, and 238-14. The director of taxation
19 may retain and deposit the amounts necessary to meet the
20 obligations of the integrated tax information management systems
21 performance-based contracts. The amounts transferred by the
22 director of taxation to the integrated tax information

1 management systems special fund shall be limited to the amounts
2 appropriated by the legislature.

3 (b) Moneys in the special fund shall be expended by the
4 department to pay for integrated tax information management
5 systems performance-based contracts and administrative and
6 operating expenses related to the integrated tax information
7 management systems revenue-generating initiatives. Unless
8 otherwise provided by law, all other receipts shall immediately
9 be deposited to the credit of the general fund of the State."

10 SECTION 5. Section 36-27, Hawaii Revised Statutes, is
11 amended to read as follows:

12 "§36-27 Transfers from special funds for central service
13 expenses. Except as provided in this section, and
14 notwithstanding any other law to the contrary, from time to
15 time, the director of finance, for the purpose of defraying the
16 prorated estimate of central service expenses of government in
17 relation to all special funds, except the:

- 18 (1) Special out-of-school time instructional program fund
19 under section 302A-1310;
- 20 (2) School cafeteria special funds of the department of
21 education;
- 22 (3) Special funds of the University of Hawaii;
- 23 (4) State educational facilities improvement special fund;

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- 1 (5) Convention center enterprise special fund under
- 2 section 201B-8;
- 3 (6) Special funds established by section 206E-6;
- 4 (7) Housing loan program revenue bond special fund;
- 5 (8) Housing project bond special fund;
- 6 (9) Aloha Tower fund created by section 206J-17;
- 7 (10) Funds of the employees' retirement system created by
- 8 section 88-109;
- 9 (11) Unemployment compensation fund established under
- 10 section 383-121;
- 11 (12) Hawaii hurricane relief fund established under chapter
- 12 431P;
- 13 (13) Hawaii health systems corporation special funds;
- 14 (14) Tourism special fund established under section 201B-
- 15 11;
- 16 (15) Universal service fund established under chapter 269;
- 17 (16) Integrated tax information management systems special
- 18 fund under section [~~231-3-2,~~] 231- ;
- 19 (17) Emergency and budget reserve fund under section 328L-
- 20 3;
- 21 (18) Public schools special fees and charges fund under
- 22 section 302A-1130(f);

- 1 (19) Sport fish special fund under section 187A-9.5;
 - 2 (20) Neurotrauma special fund under section 321H-4;
 - 3 (21) Deposit beverage container deposit special fund under
 - 4 section 342G-104;
 - 5 (22) Glass advance disposal fee special fund established by
 - 6 section 342G-82;
 - 7 (23) Center for nursing special fund under section [†]304A-
 - 8 2163 [†];
 - 9 (24) Passenger facility charge special fund established by
 - 10 section 261-5.5;
 - 11 (25) Solicitation of funds for charitable purposes special
 - 12 fund established by section 467B-15;
 - 13 (26) Land conservation fund established by section 173A-5;
 - 14 (27) Court interpreting services revolving fund under
 - 15 section 607-1.5;
 - 16 (28) Trauma system special fund under section 321-22.5;
 - 17 (29) Hawaii cancer research special fund;
 - 18 (30) Community health centers special fund; and
 - 19 (31) Emergency medical services special fund[†];
- 20 shall deduct five per cent of all receipts of all other special
21 funds, which deduction shall be transferred to the general fund
22 of the State and become general realizations of the State. All

1 officers of the State and other persons having power to allocate
2 or disburse any special funds shall cooperate with the director
3 in effecting these transfers. To determine the proper revenue
4 base upon which the central service assessment is to be
5 calculated, the director shall adopt rules pursuant to chapter
6 91 for the purpose of suspending or limiting the application of
7 the central service assessment of any fund. No later than
8 twenty days prior to the convening of each regular session of
9 the legislature, the director shall report all central service
10 assessments made during the preceding fiscal year. [†]"

11 SECTION 6. Section 36-30, Hawaii Revised Statutes, is
12 amended by amending subsection (a) to read as follows:

13 "(a) Each special fund, except the:

- 14 (1) Transportation use special fund established by section
15 261D-1;
- 16 (2) Special out-of-school time instructional program fund
17 under section 302A-1310;
- 18 (3) School cafeteria special funds of the department of
19 education;
- 20 (4) Special funds of the University of Hawaii;
- 21 (5) State educational facilities improvement special fund;
- 22 (6) Special funds established by section 206E-6;

- 1 (7) Aloha Tower fund created by section 206J-17;
- 2 (8) Funds of the employee's retirement system created by
- 3 section 88-109;
- 4 (9) Unemployment compensation fund established under
- 5 section 383-121;
- 6 (10) Hawaii hurricane relief fund established under chapter
- 7 431P;
- 8 (11) Convention center enterprise special fund established
- 9 under section 201B-8;
- 10 (12) Hawaii health systems corporation special funds;
- 11 (13) Tourism special fund established under section 201B-
- 12 11;
- 13 (14) Universal service fund established under chapter 269;
- 14 (15) Integrated tax information management systems special
- 15 fund under section [~~231-3.2;~~] 231- ;
- 16 (16) Emergency and budget reserve fund under section 328L-
- 17 3;
- 18 (17) Public schools special fees and charges fund under
- 19 section 302A-1130(f);
- 20 (18) Sport fish special fund under section 187A-9.5;
- 21 (19) Neurotrauma special fund under section 321H-4;

- 1 (20) Center for nursing special fund under section [+]304A-
- 2 2163 [+];
- 3 (21) Passenger facility charge special fund established by
- 4 section 261-5.5; and
- 5 (22) Court interpreting services revolving fund under
- 6 section 607-1.5;
- 7 (23) Trauma system special fund under section 321-22.5;
- 8 (24) Hawaii cancer research special fund;
- 9 (25) Community health centers special fund; and
- 10 (26) Emergency medical services special fund[+];

11 shall be responsible for its pro rata share of the
12 administrative expenses incurred by the department responsible
13 for the operations supported by the special fund concerned. [+]"

14 SECTION 7. Section 235-119, Hawaii Revised Statutes, is
15 amended to read as follows:

16 "**§235-119 Taxes, state realizations.** ~~[All]~~ (a) Except as
17 provided in subsection (b), all income taxes shall be for the
18 use of the State and shall be paid into the state treasury at
19 such times as the director of finance shall direct.

20 (b) The director of taxation shall pay the income taxes
21 into the state treasury as a state realization; provided that a
22 sum, not to exceed the amount necessary to meet the obligations

1 of integrated tax information management systems performance-
2 based contracts, may be retained and deposited into the state
3 treasury to the credit of the integrated tax information
4 management systems special fund. The sum retained by the
5 director of taxation for deposit into the integrated tax
6 information management systems special fund shall be limited to
7 amounts appropriated by the legislature."

8 SECTION 8. Section 237-31, Hawaii Revised Statutes, is
9 amended to read as follows:

10 "§237-31 Remittances. All remittances of taxes imposed by
11 this chapter shall be made by money, bank draft, check,
12 cashier's check, money order, or certificate of deposit to the
13 office of the department of taxation to which the return was
14 transmitted. The department shall issue its receipts therefor
15 to the taxpayer and shall pay the moneys into the state treasury
16 as a state realization, to be kept and accounted for as provided
17 by law; provided that:

18 (1) The sum from all general excise tax revenues realized
19 by the State that represents the difference between
20 \$90,000,000 and the proceeds from the sale of any
21 general obligation bonds authorized for that fiscal
22 year for the purposes of the state educational

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1 facilities improvement special fund shall be deposited
2 in the state treasury in each fiscal year to the
3 credit of the state educational facilities improvement
4 special fund for public school capital improvement
5 program needs; [and]

6 (2) A sum, not to exceed \$5,000,000, from all general
7 excise tax revenues realized by the State shall be
8 deposited in the state treasury in each fiscal year to
9 the credit of the compound interest bond reserve
10 fund[-]; and

11 (3) A sum, not to exceed the amount necessary to meet the
12 obligations of integrated tax information management
13 systems performance-based contracts, may be retained
14 and deposited into the state treasury to the credit of
15 the integrated tax information management systems
16 special fund. The sum retained by the director of
17 taxation for deposit into the integrated tax
18 information management systems special fund shall be
19 limited to amounts appropriated by the legislature."

20 SECTION 9. Section 238-14, Hawaii Revised Statutes, is
21 amended to read as follows:

1 "§238-14 Taxes state realizations. [All] (a) Except as
2 provided in subsection (b), all taxes collected under this
3 chapter shall be state realizations.

4 (b) The director of taxation shall pay the use taxes into
5 the state treasury as a state realization; provided that a sum,
6 not to exceed the amount necessary to meet the obligations of
7 integrated tax information management systems performance-based
8 contracts, may be retained and deposited into the state treasury
9 to the credit of the integrated tax information management
10 systems special fund. The sum retained by the director of
11 taxation for deposit into the integrated tax information
12 management systems special fund shall be limited to amounts
13 appropriated by the legislature."

14 SECTION 10. Act 273, Session Laws of Hawaii 1996, is
15 repealed.

16 SECTION 11. There is appropriated out of the general
17 revenues of the State of Hawaii the sum of \$ _____, or
18 so much thereof as may be necessary for fiscal year 2007-2008,
19 to be deposited into the integrated tax information management
20 systems special fund.

21 The sum appropriated shall be expended by the department of
22 taxation for the purposes of this Act.

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1 SECTION 12. There is appropriated out of the integrated
 2 tax information management systems special fund the sum of
 3 \$ _____, or so much thereof as may be necessary for
 4 fiscal year 2007-2008, to be used for the purposes of the
 5 integrated tax information management systems special fund
 6 established pursuant to section 231-____, Hawaii Revised
 7 Statutes.

8 The sum appropriated shall be expended by the department of
 9 taxation for the purposes of section 231-____, Hawaii Revised
 10 Statutes.

11 SECTION 12. Statutory material to be repealed is bracketed
 12 and stricken. New statutory material is underscored.

13 SECTION 13. This Act shall take effect on July 1, 2007;
 14 provided that the amendments to section 237-31, Hawaii Revised
 15 Statutes, by this Act, shall not be repealed when section 237-
 16 31, Hawaii Revised Statutes, is reenacted on June 30, 2008,
 17 pursuant to Act 304, Session Laws of Hawaii 2006.

18
 19 INTRODUCED BY: _____

20 BY REQUEST

SB 1498

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO THE DEPARTMENT OF TAXATION'S BENEFITS-FUNDED REVENUE-GENERATING COMPUTER INITIATIVES.

PURPOSE: To provide revenue-generating initiatives that will be benefits-funded, meaning the vendor will only be paid when measurable increases in revenues resulting from the initiatives are collected by the State; and to create an Integrated Tax Information Management Systems ("ITIMS") special fund to hold the proceeds from the initiatives, which will be used in part to enhance the Department of Taxation's computer system and to fund related operational and administrative functions.

MEANS: Add a new section to chapter 231, Hawaii Revised Statutes (HRS), amend sections 36-27, 36-60, 235-119, 237-31, and 238-14, HRS, repeal Act 273, Session Laws of Hawaii 1996, and appropriate funds.

JUSTIFICATION: The Department has successfully proven its ability to deliver increased revenues for the State general fund. In 1999, the Department began ITIMS, a five-year information technology modernization effort to reorganize business processes and to implement an integrated tax processing system costing \$53 million. These initiatives were certified to have increased revenues by more than \$252 million during the five years of the project. This is revenue that was deposited into the State's general fund, without a tax increase, and represents a 375 percent return on investment.

While the initial ITIMS initiatives were of significant value to the State, the Department has researched and identified additional technological initiatives that have proven in other states to generate even more revenue. These initiatives would allow the Department to expand its capabilities to identify areas of non-compliance, improve the collection of outstanding liabilities, expand its capacity to process increasing volumes, and improve customer service capabilities to make it easier for taxpayers to comply with State tax laws. Based on results in other states, this additional set of technological initiatives would cost \$26.0 million in vendor expenses to implement, and is conservatively estimated to increase revenues by \$72.0 million to \$176 million over a five-year period.

Because these new initiatives represent a significant revenue-generating potential, the Department would like to utilize a benefits-funding approach for the contract structure. As was the case in the five-year ITIMS project, benefits funding establishes mandatory performance targets that the vendor must achieve in order to be paid.

As measurable revenues attributable to the new initiatives are realized and certified, these revenues will be distributed between the ITIMS special fund and the general fund because under the benefits-funding method the vendor is responsible for up-front costs of the upgrades. Revenues received from the income, general excise, and use taxes will fund the ITIMS special fund. In this manner, the ITIMS special fund will provide a self-sufficient model to fund ITIMS revenue-generating initiatives and related tax processing and capacity improvements, while providing the general fund with an estimated revenue boost of approximately up to \$150 million over five years.

Impact on the public: Will improve collection of taxes by upgrading ITIMS via a performance-based contract that is funded by a portion of the additional revenues generated by the upgraded ITIMS.

Impact on the department and other agencies: The upgraded computer system will enable the department to utilize Internal Revenue Service data to enforce compliance with tax obligations.

GENERAL FUND: Will result in a general fund revenue increase between \$46 million and \$150 million, taking into account vendor implementation costs.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: TAX 100.

OTHER AFFECTED AGENCIES: Budget and Finance.

EFFECTIVE DATE: July 1, 2007.