

OFFICE OF THE MAYOR

DEREK S.K. KAWAKAMI, MAYOR

MICHAEL A. DAHILIG, MANAGING DIRECTOR



Testimony of Michael A. Dahilig
Managing Director
County of Kaua'i

Before a joint hearing of the
Senate Committee on Ways and Means
and the **House Committee on Finance**

Monday, January 23, 2023

1:30 p.m.

State Capitol Auditorium and Videoconference

The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

The Honorable Kyle T. Yamashita, Chair
and Members of the House Committee on Finance:

Thank you for the opportunity to present testimony before this joint-committee at the start of the 2023 Legislative Session. Mayor Kawakami is grateful for the opportunity to meet with you on Opening Day and sends his regrets that he is attending business on the continent and unable to be here today.

We again thank the Legislature for its past year's support of our county through monies for Vidinha Stadium and Hanapepe Stadium – the county home football fields for the Kaua'i High Red Raiders and our State Champion Waimea High Menehune.

Fiscal Outlook

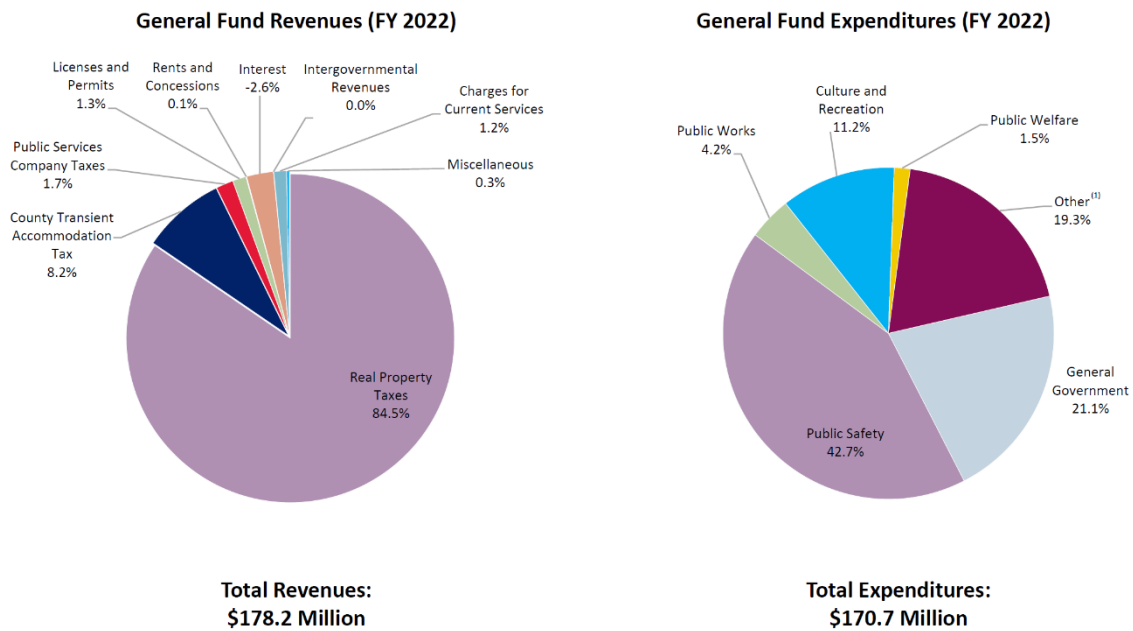
The County of Kaua'i continues to look at ways to improve efficiency in our budget and will be focusing on this during our budgetary process for the upcoming year. Due to our commitment to sound fiscal management, our growing fund balance has put us in a position for Moody's Investors Service to recently reaffirm our bond rating of Aa2. This bond rating is critical toward supporting a capital replacement for our existing landfill. With real property taxes still our primary source of general fund revenue, we are in a good position to maintain a strong fiscal picture for this upcoming county budget. Our assessed values have seen unbroken growth since 2013 and we are preliminarily forecasting approximately a 17% increase in Fiscal Year 2024.

We examine ways to create more equity in our real property tax system while trying to disincentivize uses that we strive to limit. With that, the County Council has passed a bill to tier our Real Property tax rates for the Vacation Rental and Residential Investor tax classes allowing for higher Real Property tax capture on uses more inclined to run contrary to our collective affordable housing objectives starting in Fiscal Year 2025.

The County of Kaua'i continues to actively utilize our General Excise Tax (GET) surcharge to support our transportation initiatives and roads/bridge infrastructure projects. These funds have helped us stimulate job growth, assisted us with improvement initiatives, and helped us to avoid issuing debt that would be absorbed by our taxpayers. Since the inception of GET, we now have an appropriate level of resources for a road maintenance program and have reduced the repair backlog of roads that are in poor-to-critical condition. With an average of 30-lane miles resurfaced every year, it will take roughly 20 years to complete every county-managed road just once. At our current pace of repaving, we are on track to hit 50% of all county roads once with our repaving program – a success that our driving public appreciates.

That said, we are requesting that the legislature consider adjusting the sunset of the GET. While 50% by 2028 is great, we would like to hit all our roads. As we are at the half-way mark, having a conversation on how to handle the sunset is opportune.

Once again, we would like to thank the legislature for their support of the county's transient accommodations tax (TAT) allowance. The TAT is crucial to our ability to support the infrastructure for not only our residents, but our visitors who make up thirty percent of our daily population.



As we move forward, please allow me to share some of our important issues and top fiscal priorities where the State of Hawai'i and the County of Kaua'i share a nexus.

Waimea Town Flooding Mitigation The slow-moving Waimea River has accumulated sediment build-up, closing the river mouth frequently and resulting in flooding of bordering neighborhoods. Homes and properties in this area are at constant risk of flooding, which has been linked with the Waimea River mouth closure. This has caused undue stress to the daily lives of nearby residents affected by the risk of flooding. Regular maintenance can reduce the risk of flooding in Waimea town, and protect businesses and homes. The County of Kaua'i is requesting the State Department of Land and Natural Resources to reassume its regular maintenance of the Waimea River mouth.

Housing We understand all eyes are on housing. In 2023 the County of Kaua'i is on track to break ground on 400 new affordable housing units. This is a one-year record for Kaua'i, which speaks to our successful model of active County lead development and a history of successful private partnerships. While these projects are primarily multi-family rental projects for families earning 60% Area Median Income and below, we are also building our island's second Supportive Housing project for homeless families and an array of single-family limited appreciation leasehold homes that will be available to families earning up to 120% of AMI and that will remain affordable in perpetuity.

Our development model is to identify and acquire land appropriate for housing development, and to complete all required pre-development and entitlement work to make the site shovel ready. We then provide this land at minimal costs to our private development partners under long-term lease agreements. This harnesses the expertise of our development partners and, via the County's control of the land, ensure what we build remains affordable, creating an ever-expanding portfolio of affordable housing units on Kaua'i. This model is also dependent on the generous state housing funding available through the Hawai'i Finance Development Corporation (HHFDC), and for that we are grateful.

To assist us in future housing development success, we would ask the state to provide greater financial assistance to install and upgrade infrastructure. Under the state's current affordable housing funding model, virtually all financing flows through the Hawai'i Finance Development (HHFDC). The loans HHFDC is able to provide are insufficient to address infrastructure costs as affordable housing projects by their nature do not generate income sufficient to cover the resulting debt payments.

To assist us in continuing to address homelessness via our new Supportive Housing Model, we ask the state to provide long-term operational support for these projects. When placing a homeless family into housing under a Housing First model, there is a resulting savings in reduced emergency room visits, decreased health care costs, a reduction in arrests and judicial interventions. These are savings in generally state expenditures. A model of short-term pilot program with a few years of funding cannot build a foundation for long-term success.

Thank you for this opportunity to present these comments. We look forward to working with you collaboratively throughout this session and the year ahead.