

OFFICE OF THE MAYOR

DEREK S.K. KAWAKAMI, MAYOR

REIKO MATSUYAMA, MANAGING DIRECTOR



Testimony of Reiko Matsuyama 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 22, 2024
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 2024 Legislative Session. Mayor Kawakami sends his regrets that he was unable to be here today.

As we stand here today, we would be remiss to not mention the devastation in Lahaina. Kaua'i remembers how the State and all the other counties came together to assist us in our times of disaster – whether it be Hurricane Iniki or the 2018 floods that cut off access to a large population of our island. Hawaii stood together. We are proud to stand by Mayor Bissen and the Maui County team to help them recover as quickly as possible. We realize that recovery takes years, and our commitment will be in place as long as it needs to be. We maintain the belief that Maui's community will persevere and will rise together, stronger.

General Fund Revenue

Real Property Tax - Our real property tax revenue outlook remains strong as we continue to see unbroken growth since 2013. We are estimating a moderate increase of 5% in our values for Fiscal Year 2025, putting us in a position to maintain stable revenue collection for this upcoming budget.

After some significant real property tax reform this year, we are excited to be implementing tiers to our real property tax rates in the FY25 budget. The County Council has granted us the ability to tier all 9 of our remaining tax classes, helping to distribute the burden of real property taxes more fairly across our county. This will introduce progressivity to our tax system, whereby more valuable properties pay a higher proportion of their property's value in taxes. While our intentions are to roll out these changes slowly to get our taxpayers accustomed to the new structure, this will allow us greater revenue generation. The reform also included some name changes to our tax classes which will reduce confusion, as well as elimination of our Residential Investor tax class.

General Excise Tax (GET) – The GET surcharge has helped us stimulate job growth, expedited improvement initiatives, and completely eliminated our need for additional general obligation bonds. While we took advantage of low interest rates by refinancing in 2021, our last general obligation bond issuance was in 2017 – prior to Mayor Kawakami’s tenure. We are grateful to the legislature for assisting with this avoidance of debt service that would be carried by our taxpayers for many years. This source of revenue has permitted us to finally address decades of backlogged roads that were in disrepair and allowed us to focus more on other important initiatives such as affordable housing.

In the years immediately before GET, only \$1-2 million could be invested per year towards the county’s approximately 616 lane miles of road. Only minor patching or filling could be done with any regularity, and paving had to be addressed in a triage fashion, reserved for short stretches of road at most. As a tangible statistic since the implementation of GET, we have paved over 176 lane miles under the Island-Wide Resurfacing Program. We aren’t talking about merely patching potholes. We are now making significant improvements by shaving it down and building it back up.

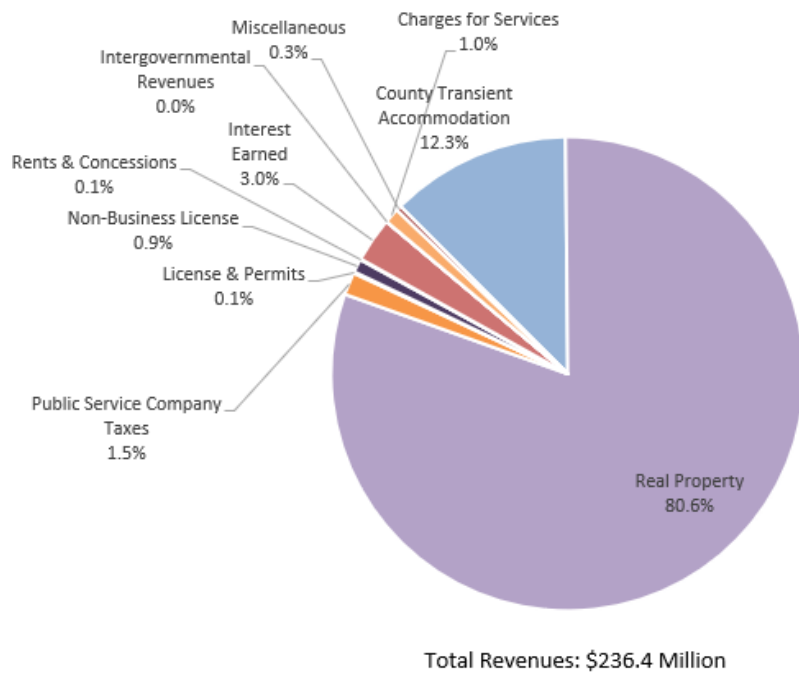
Since subdivision roads generally need to be resurfaced every 20 years, and busier roads every 10 years, the resources provided by GET has allowed the county to emerge from a state of being unable to keep pace with the normal rate of road deterioration to a being able to “catch-up,” especially with respect to roads that have long been in poor-to-critical condition. More importantly going forward, the continued access of GET funds will allow the county to progress beyond simply keeping pace with wear-and-tear to achieving a state of continuous improvement. With critical deficiencies addressed, mill-and-fill treatments could then be the norm, with the mission shifting to maintaining “good” roads and enhancing roads in “fair” condition as opposed to repairing only the “worst” roads.

Transient Accommodations Tax (TAT) – We are further grateful for the legislature’s support of our own TAT. Since inception in October 2021, we have consistently been able to generate more revenue than we did under the State’s capped distribution. 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. With the assistance of our influx of TAT, in FY24 we increased and filled all our Park ranger positions, as well as having authorized a dozen new positions to broaden our ocean safety coverage.

Kaua’i is further prioritizing the implementation of our Kaua’i Destination Management Action Plan particularly in the areas of clean ground transportation, tackling illegal TVRs, funding safety and security staff, and supporting locally made products and land stewardship initiatives. By partnering with community organizations, we are even further able to promote our cultural, educational, and agricultural programs.

All the partners are coming together to create a visitor industry that we can be proud of well into the future.

General Fund Revenues (FY 2023)



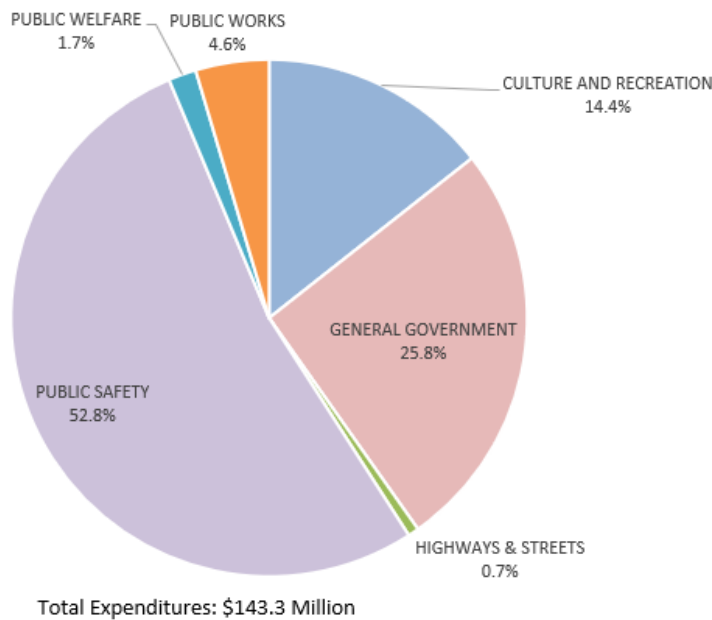
General Fund Expenditures

Salaries and related benefits use up over 81% of our general fund expenditures. This leaves little room for programs that benefit our residents. Speaking of salaries, we are still in a state of the unknown as it relates to the issue of Temporary Hazard Pay for employees who worked during the COVID-19 pandemic. The total payout amount is expected to be significant and be funded by our rainy-day reserve.

Mayor Kawakami has prioritized deferred maintenance for larger infrastructure projects which have been needed for many years, but as we move towards the end of his term, we need to prioritize expanding our existing landfill capacity, building a new landfill, and expanding our wastewater infrastructure. These things will require a bond issuance in the coming years.

As indicated in the chart below, over half of our overall general fund expenditures are used towards public safety – Police, Fire, and Emergency Management.

General Fund Expenditures (FY 2023)



While our general fund revenue greatly exceeded general fund expenses, much of that is used to support our other enterprise funds that do not generate enough revenue to cover their expenses. Solid Waste, Wastewater, and Golf Course are three of those that receive significant general fund subsidies. Of note, we have passed County legislation to increase both sewer fees and golf course green fees. As an example of the many wastewater fees that were increased, Residential flat rate sewer fees will go from \$60.09 per month to \$101.00 per month, an increase of 68%, over the next 5 years. These increases should reduce these funds' reliance on our general fund and show that the County is willing to make the difficult decisions to increase taxes and fees that we control.

Housing Initiatives

The County is the largest developer of housing on the island. In 2023, we broke ground on 221 new units and secured entitlements and financing for another 276 units. This includes our second supportive housing project for homeless families at Lima Ola, which is set to open in the spring of 2024. These 2023-2024 housing projects represent over \$270 million in investment in Kaua'i's economy and workforce.

We continue to pursue land acquisitions, complete all pre-development and entitlement work, and focus on community engagement. We have dedicated 36 acres Waimea, recently closed on 50 acres in Kilauea, and are pursuing conversion of an underutilized park all to housing. In our FY24 budget, we funded a debt repayment of \$12 million for a DURF loan to free up money for even more future housing projects. This debt was paid off 10 years in advance and saved the County \$6.4 million in debt service costs that will be used to fund future housing projects.

The success of our supportive housing concept is contingent on wrap-around services that have been previously funded through the Ohana Zone Program. This preventative-type of funding results in decreased health care costs and judicial interventions. We understand this program is currently set to sunset, and would request the State to again consider extending or deleting this provision to support our long-term operational success of these projects.



(Photo: 40-unit affordable senior rental project at Lima Ola)

Working Together

We recognize that there is much uncertainty with the Lahaina recovery, and we commit to helping and working together where we can. We do so because it is in the community's best interest to maintain safety nets for our islands, care for the collective well-being that is so engrained in our local culture, and understanding that healthy dialogue about responsibility still needs to continue.

We also acknowledge there is much we must learn from this disaster and are committed to buffering our disaster preparedness and recovery plans. We have been awarded funds as part of USDA's Community Wildfire Defense Grant program to update the Community Wildfire Protection Plan, and simultaneously working on the Kauai Climate Adaptation and Action Plan that outline strategies to both

mitigate and adapt to the effects of climate change, considering rising heat and wildfires. Furthermore, the necessity for resilience hubs across the island has become increasingly evident. Ongoing efforts are in place to formulate a strategy that identifies essential hub components, evaluates existing buildings suitable for conversion or repurposing, and outlines an incremental implementation plan. This approach aims to strike a balance between the urgency of disaster recovery and the long-term goal of enhancing the island's resilience.

In this work on Kaua'i and across the State, it is essential we collaborate across stakeholders, like we have done so many times before. We must ensure the meeting of the minds and develop creative, thoughtful, and proactive plans and solutions. Throughout Maui's immediate recovery, and in the wake of the State's largest environmental, social, and economic disaster, we must emphasize that we feel an obligation to make sacrifices for the good of the whole and recognize that there is a long road ahead. We are with you.

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