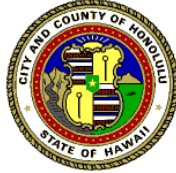


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TESTIMONY OF KIRK CALDWELL, MAYOR  
CITY AND COUNTY OF HONOLULU  
BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS  
AND THE HOUSE COMMITTEE ON FINANCE  
Monday, January 26, 2015, 2:30 p.m.

TO: The Honorable Jill N. Tokuda, Chair  
and Members of the Senate Committee on Ways and Means

The Honorable Sylvia J. Luke, Chair  
and Members of the House Committee on Finance

Thank you for the opportunity to testify today on the City and County of Honolulu's financial issues that we will be bringing before you in the 2015 legislative session.

As you all know, the Counties request to lift or extend the sunset on the General Excise Tax (GET) surcharge for rail is expected to be a much debated issue before the Legislature. We welcome that debate and I, as Mayor, the City Administration, and HART, pledge to provide you with the information you need to make a sound decision for the people of this state. Before going into greater detail on this request, I wanted to give you some background on the City's budget status and my Administration's approach to fiscal management.

**Budget Theme for 2015**

The City Administration and departments have been working very hard to put together a fiscally responsible budget that focuses on the City's priorities and core functions. This budget, themed "Fiscal Austerity", will be presented to the City Council on March 1, 2015.

Last year, for the first time in recent City history, we applied a zero-based budget to the majority of the departmental budgets. This means we asked departments, wherever they could, to start from zero, and they were required to review and justify each expense.

Every single capital improvement project in the pipeline was prioritized based on current viability and funding amount. We are continuing with this method as I believe it forces the departments to justify expenditures more closely, and it results in reducing spending and eliminating unnecessary spending.

This year, for certain departments, we have started performance-based budgeting just like they do in the private sector. I am committed to reducing the size of government. Not to cut for the sake of cutting, but to ensure that we are striking the right balance between spending wisely and providing the best services for the people of Oahu. I really believe we can do this.

In addition, since I've become Mayor, I have put forward proposals to increase revenues if they are needed and can be applied in a fair and balanced way. For example, I proposed a fuel tax that would have helped us in our highly successful road repaving efforts. I also proposed, and the Council passed, a new tax category for residents who own second homes that are above \$1 million. Called Residential A, this new tax category does not apply to those who live in their own homes and have a home exemption, and it allows the City to keep property taxes for owner/occupants as low as possible.

I believe that the role of government, and the responsibility of government, is to provide basic and reliable infrastructure, including our transportation and sewer systems, and to ensure the health and safety of its citizens. In order to do all of this, which no entity in the private sector can do, government must have a taxing function, and it should be utilized for these critical City functions.

I present this to you today because I want to emphasize that this is an Administration that works under austerity, and when we spend, we spend to make a difference. The rail is a bold project, but it will truly make a big difference in beefing up our economy, increasing employment, and improving the quality of life for our people, especially those on the West side of Oahu.

### **Rail and the GET Surcharge**

A decade ago, when I served in the Legislature, I voted to pass HB1309, HD2, SD2, CD1 which gave the counties the authority to increase the GET by one-half percent as a surcharge to build rail. It was a controversial decision, but I was proud of this Body. We took a stand to build a transportation system for the people of Oahu that will serve us for the next generation and into the future. Consequently, the people of Oahu voted for rail to move forward, and it's very exciting, today, to see the columns and spans already constructed along the 20-mile route.

Honolulu has one of the worst traffic records in the nation. We need rail as an alternative for people on the West side. The rail project has passed a number of serious hurdles, some of which caused significant time delays. When the budget was created for construction, Honolulu was in a much different construction market. We now have to recalculate the budget based on today's economy, and the bottom line is that the project will cost about \$700 to \$900 million more than was originally budgeted.

I want to emphasize that these are our best estimates at this time, and when the next round of bids come in, HART will have a closer idea of the new cost figures.

We are requesting the Legislature to consider lifting the sunset of the GET surcharge at this time for the following reasons:

1. By law, HART is allowed only two funding sources to build rail. One is federal transit funds. The other is the GET surcharge.
2. We are discussing other sources of federal funding with the Federal Transit Authority, but we will not be able to receive more funds through the Full Funding Grant Agreement, through which we already receive \$1.55 billion.
3. With the estimated increased costs, we are currently unable to show that we have available funds to sign contracts for the completion of rail.
4. You may be wondering why the City needs the tax extension now when the current tax runs until 2022. This is because according to state law (HRS103D-309), HART's Chief Procurement Officer is precluded from signing a contract if there are not available funds. This is a real dilemma since HART needs to issue contracts for future construction phases today.

In addition, if we are to start planning and budgeting for the extension of rail to Manoa on the East end of the route, and to the Kapolei business district on the west end of the route, we need to show a dedicated source of funding for the additional planning, design and construction.

I support using the GET for this purpose because, as we discussed a decade ago, about one-third of the GET is paid by visitors, whereas raising other local taxes impacts only local residents. I believe the people of Oahu would support the extension of the surcharge to a raise in other local taxes. It's critical that we continue to move forward on rail. I understand the concern of the Legislature and the general public on increased costs

### **Hawaii Council of Mayors (HCOM)**

The State's four mayors come before you, in unity, all asking for similar opportunities as regards the GET. As noted, we have submitted a package of bills that ask for the lifting of the sunset on Honolulu's surcharge. In those same bills, we are also asking for the authority for the other three counties to raise, in perpetuity, a surcharge on the GET collected in their individual counties. Although our situations are all unique, we stand in unity on this score.

Thank you for the opportunity to provide these comments and we look forward to working with you this session.