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KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

SENATE COMMITTEE ON WAYS & MEANS

TESTIMONY REGARDING SB 3167 SD1 RELATING TO KAKAAKO

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 26, 2008

TIME: 10:00AM

ROOM: 211

This bill provides a refundable income tax credit for an unspecified amount of real property tax assessed by the City & County of Honolulu for certain industrial property located in Kakaako.

The Senate Committee on Economic Development & Taxation amended the bill by blanking the amount of credit, including the credit's cap and by adding recapture provisions.

The Department of Taxation (Department) **opposes** this tax policy.

I. THE DEPARTMENT OPPOSES THIS REAL PROPERTY TAX CREDIT.

Without commenting on the propriety or merits of the intent and purpose of this legislation, the Department opposes the real property income tax credit for the following reasons:

THE REAL PROPERTY TAX CREDIT, IN EFFECT, MERELY SUPPORTS THE COUNTIES—The Department believes that a real property tax credit in any amount is ultimately a subsidy to the City & County of Honolulu. There are several unintended consequences from this legislation. First, the county would be in a position to consider increasing the tax on industrial land because the State would be paying for the tax, regardless of the rate or amount. Second, no taxpayer would be interested in challenging any assessments because ultimately the State will pay the bill. The Department believes that this tax credit is poor tax policy because the county enjoys the ultimate subsidy.

If the intent of this legislation is to provide relief for the real property taxes on industrial land, the Department suggests appropriating a set amount of revenue to the county and requiring the counties to adopt a direct real property tax credit.

RECAPTURE—The Department appreciates the recapture provisions contained in this legislation. However, the Department suggests that the recapture provisions include the following additional language for technical accuracy:

"(d) Recapture of a previously claimed credit shall be required by the taxpayer who received the credit if any of the following occur:

- (1) The previously qualified property is no longer designated as I-1, limited industrial district, or I-2 intensive industrial district; or
- (2) The previously qualified property is no longer used for industrial or commercial purposes.

The recapture shall be equal to one hundred per cent of the total tax credits claimed under this section for all preceding taxable years. The amount of the recaptured tax credits shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs under this subsection."

REFUNDABLE CREDIT—This tax credit is refundable. The Department questions whether a refundable tax credit is necessary.

I. REVENUE ESTIMATE.

This legislation will result in an indeterminate revenue estimate since the limit (in terms of property size and credit amount) is not specified.

Assuming the credits are available upon this bill's approval and without regard to the unspecified size and amount limitation, there is an estimated revenue loss of \$1.3 million in FY2009 and \$2.5 million annually thereafter.

The Hawaii Community Development Authority reports the Kakaako district is approximately 600 acres. In the State of Hawaii Data Book (2006), industrial land in Honolulu totaled approximately 3,790 acres in 1998. It is assumed this figure remains relatively constant over time. Of the 600 acres (of mixed-use land) in Kakaako, it is further assumed approximately 15% qualifies for this tax credit (or approximately 90 acres). This represents approximately 3% of all industrial land in Honolulu.

According to the Real Property Tax Valuations prepared by the Real Property Assessment Division, approximately \$83.2 million was collected from industrial land in FY2008. The 3% estimate from above is applied to this value, which is approximately \$2.5 million annually.

Community Voice, Collective Action

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TESTIMONY OF

Robert Agres, Jr.

Senate Committee on Ways & Means

Tuesday – February 26, 2008

10:45 a.m.

Conference Room 211

IN SUPPORT OF SB 3167, SD1 – RELATING TO KAKA'AKO

Aloha Chair Baker, Vice Chair Tsutsui, and members of the Senate Committee on Ways & Means:

I am Robert Agres, Jr., Executive Director of the Hawai'i Alliance for Community Based Economic Development (HACBED). Over the past year, HACBED has partnered with the Department of Urban & Regional Planning of the University of Hawai'i at Manoa in conducting the Transit Oriented Community Based Development (TOCBD) project. The project is funded by the Honolulu City Council.

As a result of the findings of this work, we strongly support **SB 3167, SD1** which provides mechanisms to support the viability of small businesses in Kaka'ako, especially light industrial, wholesaling, service, and commercial business operations. Kaka'ako is a vibrant business community with a long history of supporting residents and other businesses in the immediately surrounding and broader community.

The TOCBD project was designed to ensure that social and economic revitalization of our communities is guided by viable processes to engage the community and build their capacity to shape their future. To this end, the TOCBD project involved community stakeholders from the three participating communities in reviewing previous planning efforts in their community; exploring lessons learned from relevant case studies; gathering additional data and broad based input from residents and

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businesses; and developing preferred scenarios for community-based development, especially those that may result from transit.

The three communities involved are Ala Moana-Sheridan-Kaheka; Kaka`ako Mauka; and McCully-Mō`ili`ili. Each of these communities participated in a series of facilitated meetings and work sessions, events, and projects to establish goals that not only meet the needs of the community but contemplate the opportunities that may and can arise from the proposed new High Occupancy Transit routes.

As part of the TOCBD initiative, information was gathered regarding the economic impact of Kaka`ako Mauka businesses and a survey was conducted to assess their needs. These efforts revealed that there are 1,479 Kaka`ako businesses that cross a broad-range of business sectors. These small businesses employ 16,931 people and generate \$2.02 billion annually. The significant direct and indirect social and economic impact of these businesses merits a coordinated effort to ensure their long term viability and sustainability, especially as opportunities and challenges arise due to transit.

Survey results showed that 80% of the businesses in the Kaka`ako area rent or lease their property, thus, making them highly vulnerable to impacts of rising land values and taxes. Tax relief measures and infrastructure improvements were cited by small businesses as key factors to their near term survival and long term viability within the development anticipated for the area due to transit. This perception of businesses in the area is rooted in the double-digit, year-over-year tax increases that Kaka`ako Mauka businesses have faced due to the significant increases in land values caused, especially, by the development of high-end condominiums.

SB 3167, SD1 will provide much needed support mechanisms for an important part of Honolulu's economy, the light industrial, wholesaling, and service and commercial businesses of Kaka`ako Mauka. As we work for a sustainable Hawai`i and increased economic self sufficiency for Hawai`i's families, we must continue to advance strategies that strengthen our existing small businesses and generate more opportunities for small business development, especially with the looming development prospects that will result from transit. We, therefore, ask your support of **SB 3167, SD1**.

We thank you for your favorable consideration of **SB 3167, SD1** and the opportunity to provide our testimony and support.



COLLEGE OF SOCIAL SCIENCES

public policy center

UNIVERSITY OF HAWAI'I AT MĀNOA

Testimony of
Sharon Y. Miyashiro

Senate Committee on Ways and Means
Tuesday, February 26, 2008
10:45 a.m.
Conference Room 211

IN SUPPORT OF S.B. 3167, S.D. 1 - Relating to Kakaako

I am Sharon Miyashiro, Principal Investigator of a transit-oriented community-based development project at the University of Hawaii at Manoa's Social Sciences Public Policy Center. Based on the findings of our work in the Kakaako Mauka community, we strongly support S.B. 3167, SD1, which addresses community concerns related to development; and, more specifically, provides mechanisms to support affected businesses in the Kakaako community development district.

For the past year the "Transit-Oriented Community-Based Development" project, funded by the Honolulu City Council, and conducted by the Department of Urban and Regional Planning, University of Hawaii at Manoa, and the Hawaii Alliance for Community-Based Economic Development, explored grassroots planning models to assist three urban communities to articulate possible and preferred scenarios for social and economic revitalization as well as build their capacity to address future development, including opportunities and disruptions that may occur with transit development.

Three communities – Ala Moana-Sheridan-Kaheka (AMSK); Kakaako-Mauka (K-M); and McCully-Moiliili (MM) – engaged in a year-long study and deliberation of the specific community values, preferences for future development and challenges in achieving their vision to remain in place in their respective communities. We found that the value prized by all three communities was the ability to remain in place – whether it was a small business in Kakaako-Mauka or the senior citizen in Ala Moana-Sheridan-Kaheka. They did differ in focus and character, however, and there was no "one size fits all" solution. It is for this reason that SB 3167, SD1 is attractive in meeting the mixed needs and desires of businesses in the K-M community -- a valuable asset of our urban community.

In 2006, K-M was home to 1,479 businesses across a broad-range of business sectors that

employed 16,931 people, which comprised 3.7% of Honolulu and 2.7% of State non-agriculture workers. Kakaako's nearly 1,500 businesses—which are largely small businesses -- generate revenues of approximately \$2.02 billion annually, contributing 5.9% and 3.9% to the Honolulu and State economies; and, as importantly, employing over 16,000 residents.

The profit margins of these businesses, however, are tight and they lack the resources, individually, to undertake the level of development needed to sustain their vitality and productivity. They are seeing their property taxes increase at rates of about 20% per year and are, by tax policy, reaching the tipping point where taxes will force businesses to close or leave.

Therefore, near-term, collective and coordinated action is needed on the part of the State and City to ensure that current development and tax policies do not result in the closure of these valued businesses and residents of a vital part of our urban community. S.B. 3167, SD1 creatively provides enabling policies to support residents in retaining the best of our resources—its people—and growing their asset base.

Based on the foregoing we strongly support S.B. 3167, SD1 and urges its passage by the Committee.

ENVIRONMENTAL PLANNING SOLUTIONS, LLC

Testimony of
Colette Sakoda

Senate Committee on Ways and Means
Tuesday, February 26, 2008
10:45 a.m.
Conference Room 211

IN SUPPORT OF S.B. 3167, S.D. 1 - Relating to Kaka`ako

I am Colette Sakoda, Principal and owner of Environmental Planning Solutions, LLC, a city and regional land use and environmental planning consulting firm in Honolulu. I strongly support S.B. 3167, SD1, which addresses community concerns related to development; and, more specifically, provides mechanisms to support affected businesses in the Kaka`ako community development district.

The economic strength and fabric of urban Honolulu are characterized by the breath and mix of its many small businesses. Kaka`ako's nearly 1,500 businesses, which are mainly small businesses, generate revenues of approximately \$2.02 billion annually, contributing 5.9% and 3.9% to the Honolulu and State economies; and, as importantly, employing over 16,000 residents (University of Hawaii, 2007).

With tight profit margins and very little resources, many of these business owners are unable to undertake the level of development needed to sustain their vitality and productivity. They are seeing their property taxes increase at rates of about 20% per year and are, by tax policy, reaching the tipping point where taxes will force businesses to close or leave.

S.B. 3167, SD1 provides enabling policies to support those most adversely affected and disrupted by development, including transit development. This measure will also provide the necessary support to assure that businesses remain and continue to participate in achieving the vision of an economic center comprised of compatible mixed uses in the Kaka`ako community development district under Section 206E-31, HRS.

Because of this, I strongly support S.B. 3167, SD1 and urge its passage by the Committee.



HAWAII COMMUNITY
DEVELOPMENT AUTHORITY



KAKAOKO
KALAELOA

Linda Lingle
Governor

Jonathan W. Y. Lai
Chairperson

Anthony J. H. Ching
Executive Director

677 Ala Moana Boulevard
Suite 1001
Honolulu, Hawaii
96813

Telephone
(808) 587-2870

Facsimile
(808) 587-8150

E-Mail
contact@hcdaweb.org

Web site
www.hcdaweb.org

STATEMENT OF
ANTHONY J. H. CHING, EXECUTIVE DIRECTOR
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TUESDAY, FEBRUARY 26, 2008

10:45 A.M.

State Capitol, Conference Room 211

S. B. 3167, S. D. 1 - RELATING TO KAKAOKO.

Purpose: Provides a tax credit for existing light industrial, wholesaling, service or commercial operations in the Kakaako Community Development District zoned I-1 and I-2 and clarifies that the Hawaii Community Development Authority (HCDA) may, and not shall affix assessments against real property specially benefiting from improvement district projects.

Position: With respect to the merits of awarding tax credits for existing and qualifying operations in Kakaako designated by the City and County of Honolulu as I-1 and I-2 for purpose of computing property tax assessment, the HCDA defers to the Department of Taxation and the Department of Business, Economic Development & Tourism.

With respect to amendment of the HCDA statute to clarify that the Authority may, and not shall assess the real property within an improvement district area according to the special benefits conferred by the public facilities or improvements developed, the HCDA offers the following comment.

Improvement District Financing. Currently, only if less than the entire community district will benefit from an improvement district project will an assessment be levied "against the real property specially benefiting from such public facilities." In this situation, the current assessment methodology requires that approximately 28% of the construction cost is levied against the real property which benefits specially from the public facility. Planning, design, the remaining construction and any other costs are financed either by a legislative Capital Improvement Project (CIP) appropriation or from the HCDA Public Facility Revolving Fund.

HCDA staff is currently reviewing its assessment methodology and will report its findings to the Authority, Kakaako community and the general public. No timetable for the completion of this review has been set as of this date. However, in the event that the tax credits described in Part 1 of this proposal are enacted, legislative directions which describe those situations where the HCDA "may," choose to not levy any real property specially benefiting and also qualifying for the tax credit would assist staff in its review of the current methodology.

Thank you for the opportunity to provide these comments.