BIA-HAWAII

BUILDING INDUSTRY ASSOCIATION

THE VOICE OF THE CONSTRUCTION INDUSTRY

Testimony to the House Committee on Judiciary
Thursday, February 6, 2014
2:00 p.m.
State Capitol - Conference Room 325

SUBJECT: H.B. 2167, PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES AND H.B. 2168, RELATING TO TAX INCREMENT BONDS

Dear Chair Rhoads, Vice-Chair Har, and members of the Committee:

My name is Gladys Marrone, Government Relations Director for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA-HAWAII **supports both H.B. 2167 and H.B.2168**. H.B. 2167 proposes amendments to the Constitution of the State of Hawaii to expressly provide that the legislature may authorize the counties to issue tax increment bonds and to exclude tax increment bonds in determining the funded debt of the counties. H.B. 2168 proposes to conform state debt limit statements laws to include tax increment bonds if a constitutional amendment authorizing the use of such bonds is ratified.

BIA Hawaii has been a strong proponent of providing new alternatives to fund public infrastructure in Hawaii. Tax Increment Financing (TIF) is currently allowed for in County ordinances; however, none of the Counties have implemented it as an alternative to financing infrastructure in Hawaii.

It is not clear, however, whether or not the proposed bills will address the issues that have prevented the Counties from implementing TIF's. We hope that the proposed bills provide more certainty for the Counties to implement TIF's in Hawaii.

Thank you for the opportunity to express our views on this matter.

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The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the House Committee on Judiciary
Thursday, February 6, 2014 at 2:00 p.m.
State Capitol - Conference Room 325

RE: HOUSE BILL 2167 PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES

Chair Rhoads and Vice Chair Har and members of the committee:

The Chamber **supports** H.B. 2167, which proposes amendments to the Constitution of the State of Hawaii to expressly provide that the legislature may authorize the counties to issue tax increment bonds and to exclude tax increment bonds in determining the funded debt of the counties.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber has been a strong proponent of providing new alternatives to fund public infrastructure in Hawaii. Tax Increment Financing (TIF) has been allowed for in the Statutes for some years now; however, none of the Counties have implemented it as an alternative to financing infrastructure in Hawaii.

It is not clear whether or not the proposed bill will address the issues that have prevented the Counties from implementing TIFs. We hope that the proposed bill will provide more certainty for the Counties to implement TIFs in Hawaii.

Thank you for the opportunity to express our views on this matter.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONSTITUTIONAL AMENDMENT, Authorize issuance of tax increment bonds

BILL NUMBER: SB 2459; HB 2167 (Identical)

INTRODUCED BY: SB by Keith-Agaran and 5 Democrats; HB by Brower, Belatti, Hanohano, C. Lee, Mizuno, Nakashima, Rhoads, Saiki, Wooley and 4 Democrats

BRIEF SUMMARY: Amends Article VII, Section 12, of the state constitution to allow the legislature to authorize the counties to issue tax increment bonds. Defines "tax increment bonds" as all bonds, the principal of and interest on which are payable from and secured solely by all real property taxes levied by a political subdivision, for a period not to exceed ____ years, on the assessed valuation of the real property in a tax increment district established by the political subdivision that is in excess of the assessed valuation of the real property for the year prior to the undertaking of specified public works, public improvements or other actions by the political subdivision within the tax increment district.

Amends Article VII, Section 13, of the state constitution to provide that tax increment bonds issued by the counties shall not be included in the determinations of the funded debt of the counties.

EFFECTIVE DATE: Voter approval

STAFF COMMENTS: The proposed measure would allow each of the counties to issue tax increment bonds and utilize the concept of tax increment financing as another means of financing capital improvements. The concept of tax increment financing is based on increased property tax revenue generated from rising property tax assessments which result from the improvements. Under a tax increment financing plan, a specific geographic area would be designated as a tax increment district for which tax increment bonds would be sold to cover capital improvement project costs within that district.

Upon the designation of a tax increment district an "assessment base" is established, based on the total assessed value of taxable real property in a tax increment district at that time. A "tax increment," which is the amount by which the current valuation of the real property exceeds the assessment base, is then determined. The revenues derived from the assessment base would be paid into the county's general fund while the revenues derived from the tax increment would be deposited into the tax increment fund. In addition to the revenues derived from the determination of the tax increment, the proceeds of tax increment bonds are also to be deposited into the tax increment fund. The total revenues in the tax increment fund are then be used to finance capital improvements including debt repayment made to the tax increment district which, in turn, will result in increased property valuations due to renovation and increased capital improvements within the designated district.

It should be noted that while this concept provides another means for the financing of capital improvements, caution should be exercised to ensure that the amount of revenues generated within a tax increment district will be sufficient to cover the debt service of the tax increment bonds issued. On the other hand, provisions should be made to insure that this method of financing is not abused as it has been in other states. Specifically, it should be delineated that once a tax increment financing district has been designated and the project costs estimated, such districts may not be enlarged nor shall expenditures exceed projections to include purposes other than originally authorized without specific local government approval.

In other words, in designating such districts, certification of assessment values should be done to insure that valuations of properties within the tax increment district will increase sufficiently to generate enough revenues to repay the cost of the bonds sold. Conversely, specific provisions should be made to insure that any excess revenues are returned to the county general fund.

The measure also provides that tax increment bonds shall be excluded from the determination of funded debt of the counties for purposes of the constitutional spending ceiling. It is questionable why tax increment bonds should be treated differently from any other debt of the counties.

Digested 2/5/14