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January 15, 2013

The Honorable David Y. Ige, Chair
and Members of the Senate
Committee on Ways and Means
415 South Beretania Street
Hawai'i State Capitol
Honolulu, Hawai'i 96813

Aloha, Chair Ige, Vice Chair Kidani and distinguished members of the Senate Ways and Means Committee. Thank you for this opportunity to appear before you to outline our priorities on issues important to the County of Hawai'i in 2013.

Before I begin, I would like to take a moment to reflect on the legacy of United States Senator Daniel K. Inouye, who was a courageous leader and a respected, tireless advocate for Hawai'i at the U.S. Congress. We all miss the senator's leadership, his friendship and his powerful, compassionate voice advocating for Hawai'i's people on the national stage. As we begin this first session of the Legislature since the senator's passing, this is an appropriate time to reflect on one of his most fundamental political principles, which is the importance of unity. The senator spent his life bringing people together to work for a simple, common purpose, which was to improve the lives of Hawai'i's people. We honor his memory, and I look forward to working collaboratively with all members of the House and Senate to serve each of our communities.

This is my fifth message to the Senate Ways and Means and House Finance Committees, and we are encouraged by signs of a gradual economic recovery at the state level, including recent increases in visitor arrivals and visitor spending. Most importantly, we are relieved to see the recent declines in unemployment statewide. We all understand how our working families have struggled during the recession, and we look forward to a return to a healthier, more vibrant economy.

As we continue to navigate this challenging economic environment, we welcome the initiatives by Gov. Neil Abercrombie and the Legislature to quickly advance state projects and programs to support our families, provide needed infrastructure, create jobs and boost our economy.

TRANSPORTATION

Improvements to Highway 130, Kea'au-Pahoa Highway

We ask for your support and stand ready to assist the state in any way we can to provide urgently needed traffic relief to working people who are commuting each day on the Kea'au-Pahoa Highway. This heavily traveled, highly congested state highway serves one of the fastest growing regions in our state. In November the state opened bids on the first phase of the plan to convert the existing shoulder lane system on the highway into permanent lanes, and construction is scheduled to begin by mid-2013. We appreciate the support the Legislature has already given to this critically needed transportation infrastructure.

Looking ahead, we ask your committee to approve state funding for the larger plan to expand more than nine miles of the Kea'au-Pahoa Highway to four lanes. State studies show that four intersections along this highway rank among the most dangerous in the state based on the numbers of serious accidents, and improvements to this thoroughfare have become an urgent matter of public safety. Money is available to begin design work for this larger project to increase the capacity on this highway and make it safer, but no source of construction funding has been identified. Your commitment to provide state funding for this project would protect public safety and significantly improve the quality of life for the residents of Puna.

Mid-Level Road (Ane Keohokalole Highway), Kona, Phase III

We have completed work on the first three miles of the Ane Keohokalole Highway at a cost of \$30.5 million. This road was the largest expenditure of American Recovery & Reinvestment Act money for transportation infrastructure in Hawai'i, and stands as a powerful reminder of what we can accomplish with teamwork and cooperation between government, the private sector, cultural and environmental organizations, and the community.

We are now requesting \$3.5 million in state funding to initiate planning for the third phase of the Ane Keohokalole Highway from Hina Lani Street to Ka'iminani Drive. This will be the final three-mile stretch of a six-mile arterial extending from Palani Road in Kailua-Kona to Kalaoa, mauka of Kona International Airport.

This project will complete a continuous mid-level route between the urban centers of Kailua-Kona and Kona Palisades, and will serve the new Hawai'i Community College-Palamanui campus in West Hawai'i. It will ease traffic congestion during peak hours on Queen Ka'ahumanu Highway, and provide an alternative emergency travel route to serve West Hawai'i in the event of closure of Mamalahoa Highway. The Ane Keohokalole Highway is facilitating the growth of a safe and vibrant community, and is fostering economic development by opening up opportunities for affordable housing and places to learn, work, and play.

PUBLIC SAFETY

Civil Defense Sirens

We strongly agree with the administration's budget request for an extra \$2.5 million in each of the next two fiscal years to modernize the state civil defense siren system, which is critical to protect public safety. The Legislature has already provided \$16.4 million to begin its statewide modernization effort, and we thank you for that support. We expect to see contractors at work around the state by mid-2013 on the first phases of this project, which will convert the existing radio-activated siren system to a more reliable satellite- and cellular-based system.

The additional \$5 million the governor has requested for the siren systems over the next two years would be used to add new sirens to better notify the public in the event of an emergency. That would include 36 additional, modern sirens planned for Hawai'i Island, and we urge your committees to continue this effort to protect our communities and expand this important piece of our public safety infrastructure.

CHILDREN AND YOUTH

Statewide Juvenile Intake and Assessment Centers

The Hawai'i Office of Youth Services reports that 63 percent of the wards confined at the Hawai'i Youth Correctional Facility come from the Neighbor Islands. We must do more to intervene earlier to provide better, more positive alternatives for these young people. We urgently need to divert these youths out of the criminal justice system and into services that will allow them to succeed and thrive.

This year the Office of Youth Services in partnership with the Hawai'i County Office of the Prosecuting Attorney will launch the first juvenile intake and assessment center in East Hawai'i with \$200,000 in grant funding from the federal Office of Juvenile Justice and Delinquency Prevention. This new program to assess at-risk youth who have been arrested for minor or status offenses will identify the needs of these young people, and will link them and their families with appropriate services. These youths are not a threat to public safety, and diverting them out of the criminal justice system will help to free up our police officers for more important patrol duties, making better use of our public safety resources.

The administration's proposed budget includes \$800,000 for each of the next two years to expand this juvenile intake and assessment effort to every island in Hawai'i, and we strongly agree with this initiative. This appropriation would provide enough funding to open a new center in West Hawai'i, and will benefit our young people, our police and the entire community. It will save our state taxpayers money in the long run.

HIGHER EDUCATION

College of Pharmacy and Health Sciences Building

We ask for your continued support in building on the successes of the University of Hawai'i at Hilo and our community college system, which have allowed higher education to emerge as an economic engine on Hawai'i Island. In 2010, UH-Hilo accounted for an estimated \$200 million in direct expenditures, and the university is the second largest employer in East Hawai'i. The university system is preparing our young people for success in our community and across the state, and the continued growth of our higher educational system is integral to our economic success and our future.

In 2011 the College of Pharmacy at the University of Hawai'i at Hilo became the first school of pharmacy in Hawai'i and the Pacific Region to become fully accredited by the Accreditation Council for Pharmacy Education. The college is the only school in the state offering a doctorate in pharmacy, and has been an extraordinary success. An economic impact study in 2011 found the college is generating more than \$50 million per year in economic activity statewide, and each dollar of investment in salaries at the college is attracting more than three dollars in spending from outside sources. The college has emerged as a jewel of the University of Hawai'i at Hilo.

The college was granted accreditation before obtaining permanent facilities, which College of Pharmacy Dean John Pezzuto has called a "leap of faith" by the board of directors at the accreditation council. It is now time to provide a permanent home to meet the long-range needs of the college to allow it to fulfill its promise as a center for excellence in education and health sciences. We strongly agree with the administration's request for \$41 million in general obligation and revenue bonds over the next two years to finance the College of Pharmacy and Health Sciences Building.

HEALTH CARE

Primary Care Training and Rural Residency Program

The state and Hawai'i Island continue to face a severe physician shortage, with a recent study estimating that the County of Hawai'i needs 150 more doctors to provide an adequate level of access to health care for our residents. Projections by the John A. Burns School of Medicine show the physician shortage will dramatically worsen in the next five years as many doctors retire. An important piece of the solution for our community is the rural residency program, which is now undergoing national accreditation and will begin training residents in 2014. National research shows that 80 percent of residents practice near where they train, and we know this program will help ease the physician shortage in our county and in rural areas across the state.

We are working collaboratively with the Hawai'i Health Systems Corporation and our Hawai'i Island delegation to advance a measure to provide \$2.8 million in each of the next two fiscal years for the HHSC primary care training program. This includes the Hawai'i Island Family Medicine Residency program, and will also offer training to advanced practice nurses from programs at University of Hawai'i at Manoa and at Hilo, and from the UH-Hilo College of Pharmacy. This program will produce inter-disciplinary teams that can care for four times as many patients as independent practitioners, and will expand to serve rural communities on each of the islands. We believe this is an innovative and effective strategy for improving access to primary care services.

PARKS AND RECREATION

Transfer of Hapuna and Mauna Kea State Recreation Areas

We are once again respectfully asking the Legislature to transfer the Mauna Kea State Recreation Area and the Hapuna Beach State Recreation Area to the County of Hawai'i. With the proper public investment these parks can offer extraordinary recreational experiences, and the county is ready and able to assume these responsibilities. We continue to believe this proposal will increase government efficiency and save taxpayer dollars while allowing more of our residents and visitors to fully enjoy these unique and precious park facilities.

The County of Hawai'i has discussed this proposal with the Department of Land and Natural Resources in the past, and we remain willing to work with the state to take over the operation, maintenance, and improvement of the Mauna Kea and Hapuna Beach State Recreation Areas without the transfer of any state personnel or equipment.

Park maintenance and operations are core county services, and the county maintains other parks in South Kohala near Hapuna including Spencer Beach Park and the county parks at Waikoloa. The county plans to use economies of scale to minimize its maintenance and personnel costs. Meanwhile, the transfer of these facilities to the county will allow the DLNR to use its limited resources on other parks and state facilities. This is a smart solution that benefits everyone, but the most important beneficiaries are the children and families that will visit and enjoy these public treasures in the years ahead.

ECONOMIC DEVELOPMENT

Kona International Airport Improvements

We strongly support the administration's request for \$113 million in improvements for Kona International Airport, including a \$37.5 million international arrivals building, and \$70 million for a major terminal expansion. Kona continues to welcome chartered international flights from Japan, and we are working aggressively to attract additional international air traffic.

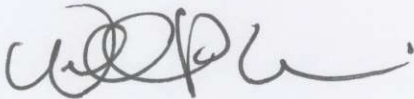
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These Kona airport improvements are important to the state as a whole. Honolulu International Airport is the fourth busiest airport in the U.S. in terms of international flights received, and Honolulu operates at its top capacity during busier times of the year. The administration's proposed airport improvements on Hawai'i Island will firmly establish Kona as the state's second gateway for international visitors, and provide an avenue for our state to continue to grow as an international visitor destination during the busiest travel seasons.

Modernizing and expanding the capacity of Kona International Airport for international flights and to encourage interisland travel is an important investment that promotes steady, solid growth of our entire state's visitor industry.

Thank you for your consideration, and we look forward to working with all of our distinguished legislators in the weeks ahead. We appreciate your hard work and your commitment to our communities.

Aloha,

A handwritten signature in black ink, appearing to read 'W. P. Keno', written in a cursive style.

William P. Keno
MAYOR

**OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU**

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KIRK CALDWELL
MAYOR

EMBER LEE SHINN
MANAGING DIRECTOR DESIGNATE

GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR

**TESTIMONY OF KIRK CALDWELL, MAYOR
CITY AND COUNTY OF HONOLULU
BEFORE THE SENATE
COMMITTEE ON WAYS AND MEANS
January 15, 2013
1:30 pm, Conference Room 211**

TO: Honorable David Y. Ige, Chair
Honorable Michelle N. Kidani, Vice Chair
Members of the Committee on Ways and Means

Thank you for the opportunity to provide the Committee on Ways and Means with an update on the activities and financial health of the City and County of Honolulu.

I took office thirteen days ago. The priorities of my administration are:

First: Build Rail Better.

In December 2012, the City and the Federal Transit Administration (FTA) signed a historic agreement that secures \$1.55 billion in federal funding for Honolulu's rail transit system. The signing of the Full Funding Grant Agreement (FFGA) marks the final step of the FTA's New Starts federal funding process for O'ahu's new rail system and makes \$200 million in federal funding available to the Honolulu rail project for fiscal year 2012.

A week later the Federal Court ruled that the City may proceed with the first three project phases and that certain pre-construction design and engineering work could proceed in the fourth phase.

These two events put the City's rail project back on track to be operational in 2019. Over the past year, I've listened to our Oahu residents about their concerns about the rail project. Based on their concerns, I am committed to building rail better by ensuring that:

- Transit stations reflect historical and unique neighborhoods in a visually sensitive fashion, preserving their "sense of place,"
- Transit corridors are beautified, by planting trees and removing visual barriers such as power lines,

- Transit Oriented Development plans move ahead as quickly as possible to create liveable, walkable communities around transit stations to support greater ridership

In order to build rail better, the City needs to be able to rely on timely and accurate payments from the State for the one half percent general excise tax (GET) surcharge collected from businesses doing business in the City and County of Honolulu.

The chart below identifies the GET surcharge revenues received by the City (on an accrual basis) and the estimated amount retained by the State for collection services.

Fiscal Year	GET surcharge payments	Est. Amount Retained
2007	48 million	5.3 million
2008	169 million	18.8 million
2009	161 million	17.9 million
2010	158 million	17.4 million
2011	179 million	19.9 million
2012	191 million	21.2 million

We recognize that the GET surcharge was enacted just as the nation faced one of the worst economic downturns in history. We understand that the 10% administrative fee collected from the surcharge has helped the State achieve a balanced budget. However, Hawaii and the nation are poised toward economic recovery and it is time to reconsider the 10% collection fee.

The enabling law which authorized the City to adopt a GET surcharge specifies that the 10% fee shall be used "to reimburse the State for the costs of assessment, collection, and disposition of the county surcharge on state tax incurred by the State...the costs of assessment, collection, and disposition...shall include any and all costs, direct or indirect, that are deemed **necessary and proper** to effectively administer this section..." (HRS §248-2.6(a)(c))(emphasis added)

In 2012, the fees collected amounted to nearly the entire budget to operate the State Tax Department! See chart attached. The Legislature could not have intended to pay for nearly the entire operation of its Tax Department through the imposition of the 10% administrative fee taken off the top of the one-half percent GET surcharge.

We ask the Legislature to look into the collection of the GET, ask for an explanation about the procedures and auditing practices put into place to ensure the City receives accurate and timely payments, and review the "necessary and proper" administrative costs to collect the one half percent surcharge. We intend to introduce legislation to rescind the 10% fee and permit a reasonable administrative charge to reimburse the Tax Department for its collection services.

It is my understanding that during the past year, the Tax Department made adjustments for unexplained reasons. For example, in the first quarter of FY2013 (for the period July-September 2012), the Tax Department reduced the payment by nearly \$10 million because it claims a reporting error happened in the quarter ending December 2011. Yet, the City has yet to receive any information on what caused the alleged error and whether the problem has been corrected. In fact, the City receives no information to verify that the sums it receives are correct because the State does not report accurately on the total collections for GET on Oahu businesses.

The GET surcharge was enacted to build the rail system. The taxpayers have the right to know that its taxes are being spent on the purpose intended – to build a rail system.

Second: Keeping The City Beautiful, Safe and Accessible.

Three priorities of my administration affect Hawaii's largest industry, tourism. That is restoration of bus routes, clean up and beautification of our city parks, and keeping our City safe. These city services benefit both our residents and our visitors. And without these essential services, Honolulu would not be able to attract the over seven million visitors that pass through every year.

The City's portion of the transient accommodations tax (TAT) is capped at \$41 million. TAT is intended to compensate the counties for the services that support the tourist industry. Based on media reports, it appears that TAT will exceed projections in 2012 and is forecast to be higher for 2013. We've looked at the cost of providing some of these services that are key to making our City a desirable place to visit.

Oahu generates approximately 80% of the TAT revenue collected. Yet, the City's share of TAT amounts to only 12% under the cap. See chart attached. Our costs for city services that support the tourist industry far exceed the TAT allocation. As you can see from the attached chart, the City spends nearly double the TAT allocation.

We ask that the Legislature consider removing the cap, rescinding the sunset date to allow the TAT rate to remain at 9.25%, and increasing the fair share allocations to the counties, which in turn should result in a corresponding increase in the allocation to the City. We understand that Hawaii's economic recovery is still fragile. However, we expect the economy to recover and that will bring in more visitors, generating increased TAT revenues.

The City faces many challenges in the years ahead. Foremost is the construction of the rail system. Other infrastructure needs demand attention, such as improved roads, our sewer system, trash and recycling. Taking care of the elderly and homeless, providing affordable housing and quality of life services are important to create the welcoming atmosphere that invites visitors to return again and again. Reasonable allocation of TAT revenues, which reimburses the City for services provided, guarantees a thriving visitor industry.

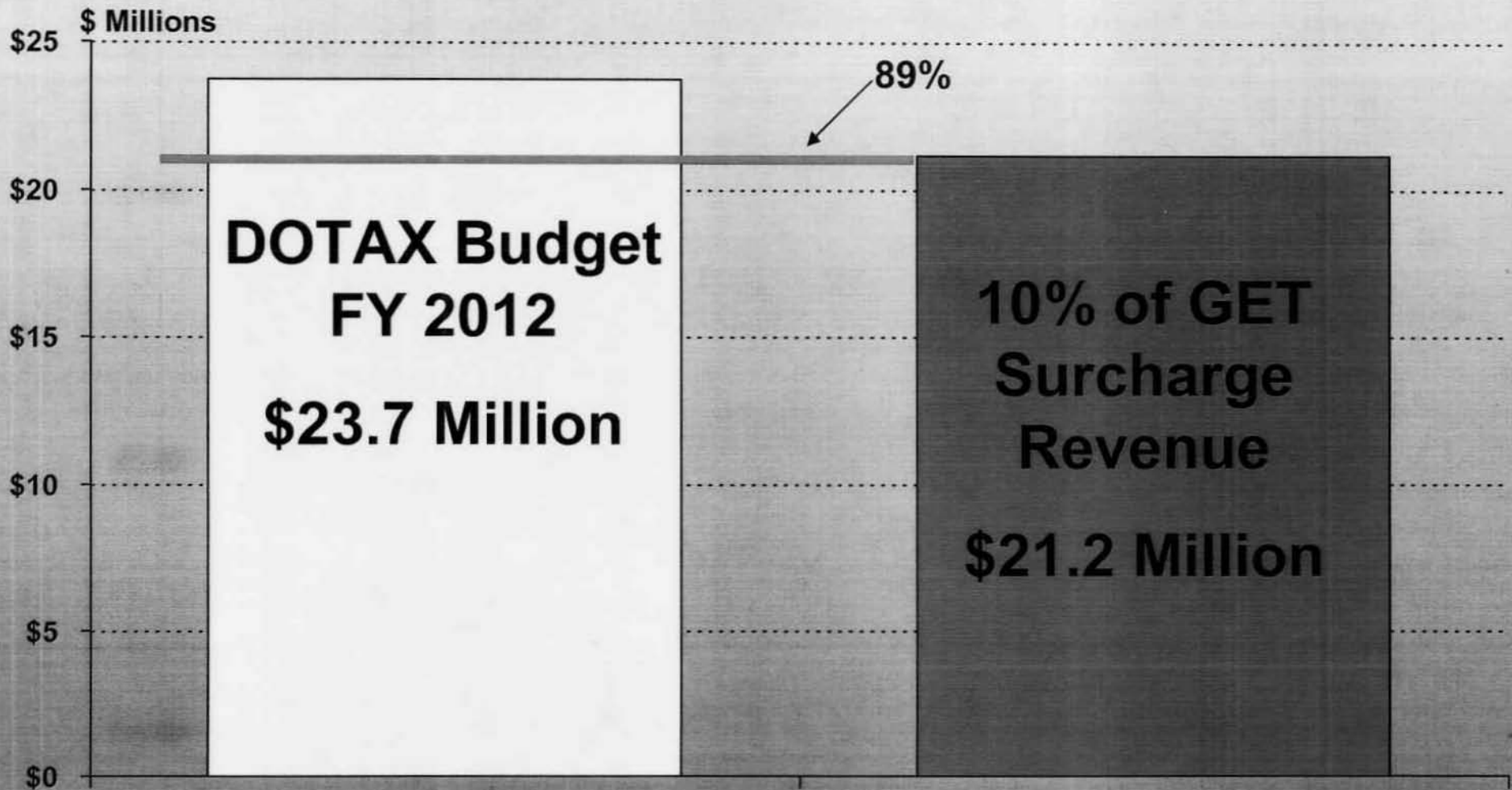
The City appreciates the Legislature's willingness to listen to our needs. I look forward to working with the Governor and members of the Legislature on the budget issues mentioned above as well as other policy issues with financial impact, such as the Natatorium, collective bargaining contracts, consolidation of emergency management services, and the PLDC.

Respectfully submitted,

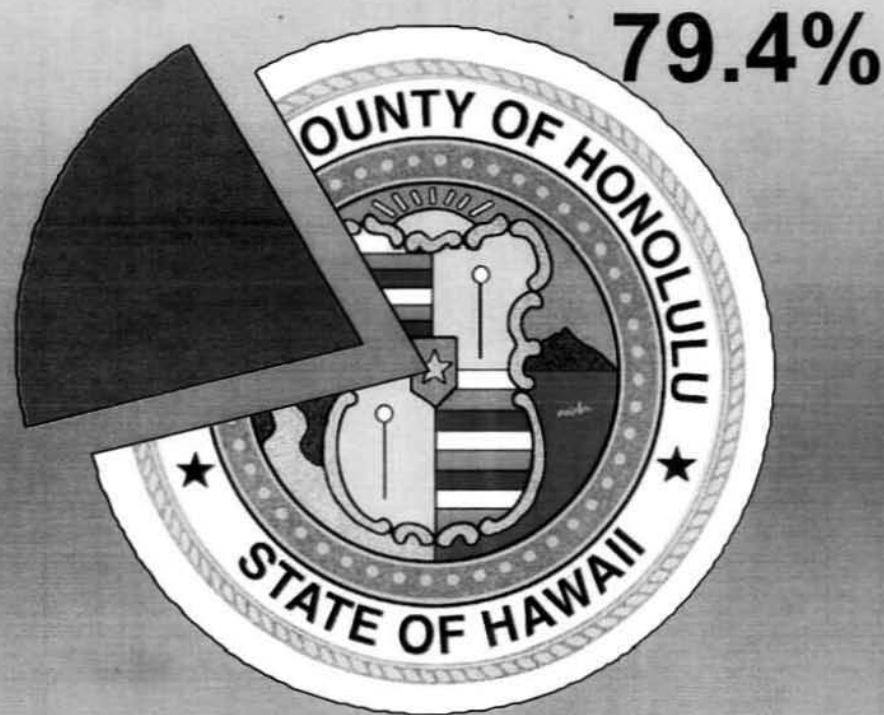
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Kirk Caldwell
Mayor

City & County of Honolulu General Excise Tax Surcharge Pays for 89% of DOTAX Operations

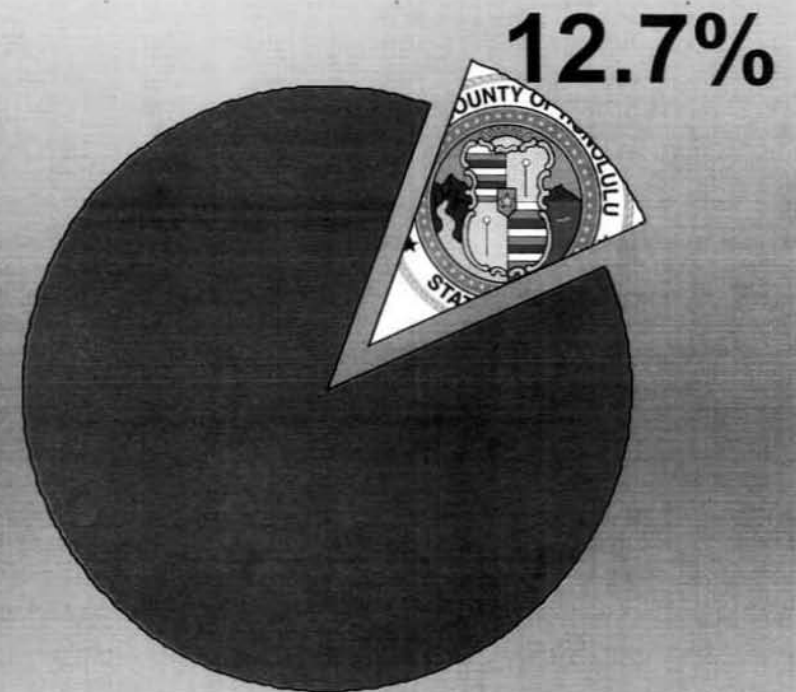


City & County of Honolulu TAT Revenues Generated and Received



Generated: \$257.2 Million

Oahu generated \$257.2 million or 79.4% of the total \$323.9 million of TAT collected in FY 2012.

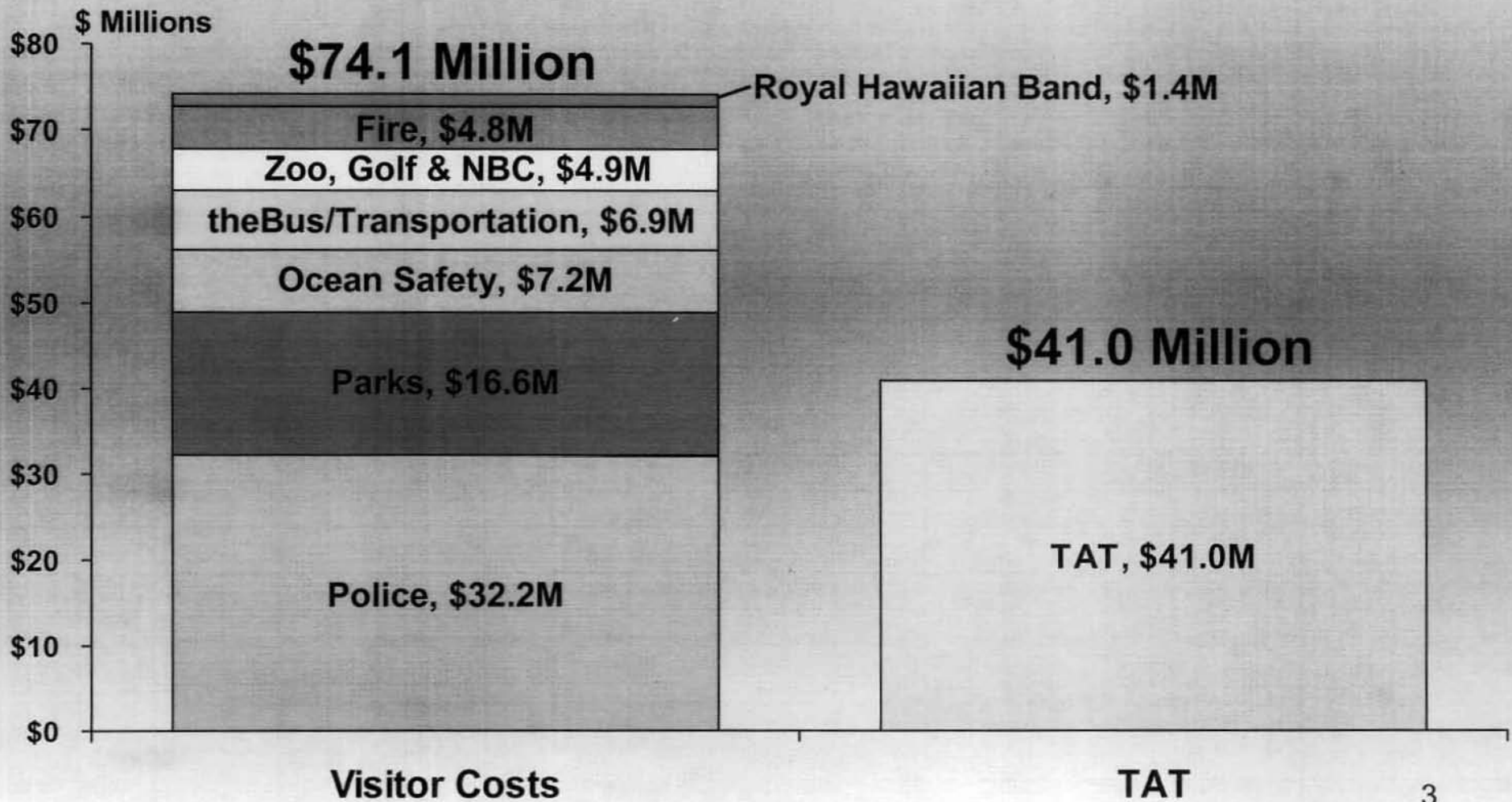


Received: \$41.0 Million

With the cap imposed in FY 2012, Honolulu receives only 12.7%.



City & County of Honolulu Visitor Industry Services



Note: The figures above do not include debt service.