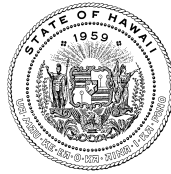


DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON TRANSPORTATION AND ENERGY
AND PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS
ON
SENATE BILL NO. 1183 AND
SENATE BILL NO. 1176

February 6, 2017
3:00 p.m.
Room 225

SENATE BILL NO. 1183, RELATING TO TAXATION
SENATE BILL NO. 1176, RELATING TO TAXATION

Senate Bill (S.B.) Nos. 1183 and 1176: a) extend without a sunset date, the half percent county surcharge on State tax for the City and County of Honolulu's (C&CH) rail project; b) authorize the Neighbor Island counties to establish a county surcharge in the future with no specified adoption date limit; and c) provide for monthly (rather than quarterly) transfers of county surcharge collections to the counties. In addition, S.B. No. 1183 provides for an unspecified State deduction (rather than ten percent) from the gross proceeds of a respective county with the provision that an unspecified percent of those proceeds be used by the Department of Transportation (DOT).

The Department of Budget and Finance believes additional information is needed before the legislature extends the half percent surcharge for the C&CH. The Honolulu Authority for Rapid Transportation (HART) and City Administration should provide the Legislature, Governor and C&CH taxpayers with the following information:

- An official accounting of all expenditures and revenues for the rail project from January 1, 2007 to December 31, 2016;
- A status report for each phase of the rail project that includes: percent of work completed, estimated completion dates for work that has commenced, and estimated start and completion dates for work that has yet to begin;
- A status report on land and right-of-way acquisition, design and project management, construction, equipment and other related contract procurement, construction progress, and operational testing;
- Details on outstanding contract commitments over \$1 million as of December 31, 2016 including: contractor's name, contract purpose/scope of work, date of original contract award, total amount of contract, date and amount of any contract amendments/change orders, total expenditures and encumbrances, and any other relevant information regarding the contract;
- A list of contract work over \$1 million, including purpose/scope of work, and contract amount that has not been bid and/or awarded but will be undertaken and was included in the cost projections presented to the Legislature during the 2015 legislative session. The contract amounts for this list should be based on current economic conditions.
- A list of unanticipated contract work over \$1 million, including purpose/scope of work and contract amount, that is or will be undertaken to address problems, issues and/or tasks that was not included in the cost projections presented to the Legislature during the 2015 legislative session.

- Updated “current working” cost projections for all aspects of the rail project’s construction and development (i.e., land and right-of-way acquisition, design and project management, construction, equipment, etc.) based on current economic conditions. Differences of greater than \$25 million between the “current working” cost projections versus the cost projections presented to the Legislature during the 2015 legislative session should be identified and explained.
- “Worst case” cost projections for all aspects of the rail project’s construction and development (i.e., land and right-of-way acquisition, design and project management, construction, equipment, etc.) based on current economic conditions. Differences of greater than \$25 million between the “current working” cost projections versus the “worst case” cost projections should be identified and explained.
- Updated “current working” revenue estimates for all revenue sources for the rail project (i.e., the half percent county surcharge on State tax, federal funds, developer assessments, rider fees, etc.) based on current economic conditions. Differences of greater than \$25 million between the “current working” revenue estimates versus the revenue estimates that were presented to the Legislature during the 2015 legislative session should be identified and explained.
- “Worst case” revenue estimates for all revenue sources for the rail project (i.e., the half percent county surcharge on State tax, federal funds, developer assessments, rider fees, etc.) based on current economic conditions. Differences of greater than \$25 million between the “current working” revenue estimates versus the “worst case” revenue estimates should be identified and explained.

- An updated financial plan for the rail project and future rail operations that reflects updated “current working” annual revenues and expenditures, annual surpluses or deficits, and ending balances on a cash basis for the period from fiscal year 2015-16 to fiscal year 2040-41, including:
 - Amounts necessary in each fiscal year to keep the rail project progressing and operating along with a detailed explanation of the financial plan’s underlying assumptions;
 - Four revenues scenarios as follows:
 - (1) half percent county surcharge sunset on December 31, 2027;
 - (2) half percent county surcharge sunset on December 31, 2032;
 - (3) half percent county surcharge sunset on December 31, 2037; and
 - (4) half percent county surcharge being extended without a sunset date.
- Any proposed bond financing plans with details on size of issue(s), structure and terms, projected interest rates, debt service schedules, repayment pledges, etc.
- Actions being taken or planned to minimize actual and/or anticipated cost overruns, and estimates of the amounts being saved by these actions.
- Alternative, non-State revenue sources being proposed/considered, including additional funding from the C&CH’s sources of revenues, and estimates of the amounts being generated by these actions. If no non-State revenue sources are being proposed/considered, an explanation of the reason(s) for not pursuing non-State funding.

Until this information is provided, we believe that it would not be prudent to consider any extension of the half percent county surcharge.

With respect to the provision in S.B. No. 1183 dedicating a percentage of the State's deduction to the DOT, we have a concern that these funds be allocated and used only in the county generating the surcharge revenue. It would be unfair to have the Neighbor Island counties benefit from increased DOT expenditures if only the C&CH taxpayers are paying the half percent surcharge.

Thank you for your consideration of our comments.



HAWAII STATE AFL-CIO

345 Queen Street, Suite 500 • Honolulu, Hawaii 96813

Randy Perreira
President

The Twenty-Ninth Legislature, State of Hawaii
Hawaii State Senate
Committee on Transportation and Energy
&
Committee on Public Safety, Intergovernmental and Military Affairs

Telephone: (808) 597-1441
Fax: (808) 593-2149

Testimony by
Hawaii State AFL-CIO
February 6, 2017

S.B. 1183 – RELATING TO TAXATION

The Hawaii State AFL-CIO strongly supports S.B. 1183 which extends each county's authority to establish and collect a surcharge on state general excise and use taxes and requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis and deletes the repeal date for Act 247, Session Laws of Hawaii 2005, authorizing counties to levy a surcharge to fund public transportation systems.

Traffic on Oahu is continually getting worse. Each year, there are thousands of new vehicles on the road creating additional gridlock, increased frustration, and more time spent in a vehicle instead of at home with loved ones. Increasingly, commuters from West Oahu face the daunting reality that traveling to Honolulu or back to West Oahu can take upwards of three to four hours round-trip and on a bad day it could be considerably worse. Rail will help alleviate the daily traffic nightmare that so many commuters face and improve the quality of life for many.

Further, Oahu voters in 2008 approved the Honolulu Rail Transit Project and were promised a rail system that would be operational no later than 2020. In addition, the U.S. Department of Transportation signed a \$1.55 billion federal funding agreement to help build the 20-mile rail project. Unfortunately, lawsuits and other complications caused significant delays resulting in a number of unexpected costs. As a result, the rail project has gone over budget. Without extending or making permanent the half-percent increase to the general excise tax, the HART will not be able to complete the 20-mile planned route and Oahu taxpayers will be on the hook of paying back the federal government the \$1.55 billion they provided. In addition, a shortened rail line may not have as great of an impact reducing traffic.

Consequently, the Hawaii State AFL-CIO strongly urges the passage of S.B. 1183 to ensure rail is built as planned.

Thank you for the opportunity to testify.

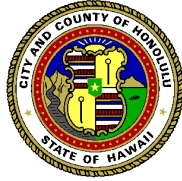
Respectfully submitted,

Randy Perreira
President

**HONOLULU CITY COUNCIL
CITY AND COUNTY OF HONOLULU**

530 SOUTH KING STREET, ROOM 202 • HONOLULU, HAWAII 96813
PHONE: (808) 768-5009 • FAX: (808) 768-5011 • INTERNET: www.honolulu.gov/council

Ron Menor
CHAIR & PRESIDING
OFFICER



IKAIKA ANDERSON
VICE CHAIR
Kymerly Marcos Pine
FLOOR LEADER

**CITY AND COUNTY OF HONOLULU
BEFORE THE SENATE COMMITTEE ON PUBLIC SAFETY,
INTERGOVERNMENTAL, AND MILITARY AFFAIRS**

MONDAY, FEBRUARY 6, 2017, 3:00 PM

**TO: THE HONORABLE CLARENCE K. NISHIHARA, CHAIR
THE HONORABLE GLENN WAKAI, VICE CHAIR
AND MEMBERS OF THE SENATE COMMITTEE ON PUBLIC SAFETY**

**THE HONORABLE CLARENCE K. NISHIHARA, CHAIR
THE HONORABLE GLENN WAKAI, VICE CHAIR
AND MEMBERS OF THE SENATE COMMITTEE ON PUBLIC SAFETY,
INTERGOVERNMENTAL AFFAIRS AND MILITARY AFFAIRS**

**FROM: COUNCIL CHAIR RON MENOR
COUNCILMEMBER JOEY MANAHAN, CHAIR OF COMMITTEE ON
BUDGET
COUNCILMEMBER IKAIKA ANDERSON, CHAIR OF COMMITTEE ON
TRANSPORTATION AND PLANNING
COUNCILMEMBER KYMBERLY MARCOS PINE, CHAIR OF COMMITTEE
ON ZONING AND HOUSING**

SUBJECT: SUPPORT OF SB1183 RELATING TO TAXATION

My name is Ron Menor and I am here to testify as the Chair of the Honolulu City Council. Along with Councilmembers Joey Manahan, Ikaika Anderson, and Kymerly Marcos Pine, we are members of a Permitted Interaction Group (P.I.G.) which was established by the Council to address the rail issue.

We are offering testimony in strong support of S.B. 1183 which would extend the County excise tax surcharge in perpetuity. The passage of this measure will ensure that we can complete the Honolulu rail project to Ala Moana as required under the Full Funding Grant Agreement (“FFGA”) between the City and the Federal Transit Administration (FTA).

We have debated the merits of a rail system for over a decade. It is badly needed to address the transportation needs on Oahu. There are 90,000 more registered vehicles on the island than when we broke ground on the project. Motorists from Central and West Oahu, who I represent, suffer through some of the worst traffic congestion in the country. That traffic is only going to get worse as thousands of new homes are built on Oahu in the coming years.

But the rail project is much more than the anchor of an integrated multi-modal transportation system. It is the economic engine of our island’s future. Through Transit Oriented Development (“TOD”) planned around the rail stations, there is enormous potential for the rail project to create new jobs, to revitalize our communities, and to increase the inventory of affordable housing for which there is a dire need.

Given the tremendous opportunities that can be created by rail, it is clear that this is not merely a “City” issue. We all represent the same citizens. The State has an important stake in ensuring the effective completion of the rail project not only for this generation, but also future generations of Hawaii’s citizens. Rail will benefit the vast majority of Oahu residents, the largest county in our State. It will help create jobs and new revenue for every County. It provides us the best opportunity in decades to build affordable workforce housing, a critical State priority.

For these reasons, we believe that the completion of the rail project represents the single most important quality of life issue that our State has faced.

Moreover, there is a great deal of urgency for the Legislature to act on this issue.

FTA officials have made clear that we could lose the federal funding that the FTA has allocated for the rail project if we do not submit satisfactory financial and recovery plans by April 30. In fact, the FTA is already withholding funds requested by HART.

In a recent letter dated January 18, 2017 to HART’s Interim Executive Director, the FTA’s Acting Administrator Carolyn Flowers indicated that the

agency will not release an additional \$100 million in FY2015 Section 5309 New Starts Funding for rail until “the Federal Transit Administration (FTA) can agree to a revised cost estimate and schedule for the project, and a financial plan that demonstrates a commitment of all local funding to cover that cost estimate.”

The FTA has also made clear that our inability to come up with an acceptable level of funding to complete rail could jeopardize future federal funds for Honolulu’s bus system, roads and state highway projects.

Finally, we believe that the GET surcharge is the best and most efficient option to cover rail construction costs.

Our citizens are already paying it. Tourists and other non-residents account for nearly 30% of the state’s GET collections.

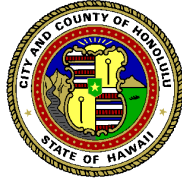
We recognize that it will ultimately be up to the Legislature to decide whether rail costs should be funded exclusively with GET surcharge revenues, or whether the City has to raise taxes and fees for Oahu residents already struggling with a very high cost of living.

Thank you for the opportunity to offer testimony on this important measure.

**HONOLULU CITY COUNCIL
CITY AND COUNTY OF HONOLULU**

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BEFORE THE SENATE COMMITTEE ON PUBLIC SAFETY,
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AND MEMBERS OF THE SENATE COMMITTEE ON PUBLIC SAFETY

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THE HONORABLE GLENN WAKAI, VICE CHAIR
AND MEMBERS OF THE SENATE COMMITTEE ON PUBLIC SAFETY,
INTERGOVERNMENTAL AFFAIRS AND MILITARY AFFAIRS

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COUNCILMEMBER JOEY MANAHAN, CHAIR OF COMMITTEE ON
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But the rail project is much more than the anchor of an integrated multi-modal transportation system. It is the economic engine of our island’s future. Through Transit Oriented Development (“TOD”) planned around the rail stations, there is enormous potential for the rail project to create new jobs, to revitalize our communities, and to increase the inventory of affordable housing for which there is a dire need.

Given the tremendous opportunities that can be created by rail, it is clear that this is not merely a “City” issue. We all represent the same citizens. The State has an important stake in ensuring the effective completion of the rail project not only for this generation, but also future generations of Hawaii’s citizens. Rail will benefit the vast majority of Oahu residents, the largest county in our State. It will help create jobs and new revenue for every County. It provides us the best opportunity in decades to build affordable workforce housing, a critical State priority.

For these reasons, we believe that the completion of the rail project represents the single most important quality of life issue that our State has faced.

Moreover, there is a great deal of urgency for the Legislature to act on this issue.

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Our citizens are already paying it. Tourists and other non-residents account for nearly 30% of the state’s GET collections.

We recognize that it will ultimately be up to the Legislature to decide whether rail costs should be funded exclusively with GET surcharge revenues, or whether the City has to raise taxes and fees for Oahu residents already struggling with a very high cost of living.

Thank you for the opportunity to offer testimony on this important measure.



Chamber of Commerce HAWAII
The Voice of Business

**Testimony to the Senate Committee on Transportation and Energy and
Committee on Public Safety, Intergovernmental and Military Affairs
Monday, February 6, 2017 at 3:00 P.M.
Conference Room 225, State Capitol**

RE: SENATE BILL 1183 RELATING TO TAXATION

Chairs Inouye and Nishihara, Vice Chairs Dela Cruz and Wakai, and Members of the Committees:

The Chamber of Commerce Hawaii ("The Chamber") **supports the intent of SB 1183**, which authorizes counties that have established a surcharge on state tax prior to 7/1/2015 to extend the surcharge in perpetuity; authorizes counties that have not established a surcharge by 7/1/2017 to establish a surcharge on state tax; provides that the State shall retain an unspecified portion of surcharge proceeds for DOT; and requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis.

The Chamber is the largest business organization in Hawaii, representing about 1,600 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber has always supported rail and, this session, supports a limited extension of the county surcharge on the excise tax for rail. However, we do not have a position on the length of the extension, other than to have enough funding to see the completion of the project as set forth in the Full Funding Grant Agreement between the City & County of Honolulu and the Federal Transit Administration, and to see the completion of rail at the least to Ala Moana. We do not support an extension in perpetuity.

The decision is a challenging one and concerns about the financial situation are valid. We agree that the stakeholders should be held more accountable and held to higher standards as we see the price of rail escalate. We also see opportunities for more collaboration and partnerships.

With that said, this transportation solution is in line with one of the Chamber's primary missions: to improve the quality of life for the people of Hawaii, while supporting initiatives that are the catalyst for business growth opportunities. It will create livable and connectable communities, improve the well-being of individuals and families, provide opportunities for entrepreneurs and small businesses, and increase the inventory of housing among many other reasons.



Chamber *of* Commerce HAWAII
The Voice of Business

By looking at the big picture and long-term benefits of this project, we believe that rail will be a positive step for Hawaii and an investment that should be made. This is about planning for the future and not for the past or the present.

Thank you for the opportunity to testify.

TESTIMONY
OF THE KAPOLEI CHAMBER OF COMMERCE
IN SUPPORT OF
SB1183 AND SB1176
RELATING TO TAXATION



Working together for Kapolei

To: Chair Lorraine Inouye, Chair Clarence Nishihara and Members of the Senate Transportation and Energy (TRE) and Public Safety, Intergovernmental and Military Affairs (PSM) Committees

February 6, 2017

Honorable Chairs and Members of the TRE and PSM Committees,

My name is Kiran Polk, and I am the Executive Director of the Kapolei Chamber of Commerce, submitting this testimony **in favor** of SB1183 and SB1176. These measures extend the general excise tax surcharge for construction of the Honolulu rail transit project.

The Kapolei Chamber of Commerce is an advocate for businesses in the Kapolei region. The Chamber works on behalf of its members and the entire business community to improve the regional and State economic climate and help Kapolei businesses thrive. The Chamber is a member-driven, member-supported organization representing the interests of all types of business: small, medium or large, for profit or non-profit businesses or sole proprietorship.

Much of the State's future population growth is slated for Kapolei and the Ewa region. Exciting things are happening and Kapolei is quickly becoming a new urban center for Oahu. In the next 20 years, there will be many more new jobs in the region, new homes and thousands of new residents will call Kapolei home.

The Kapolei Chamber and its members have long supported Honolulu's rail transit project. We view rail as an important component of much needed transportation infrastructure that will facilitate the growth, development and long term prosperity of the city of Kapolei.

We wish to express our continued support for the rail project, and respectfully request your approval of SB 1183 and SB 1176 to continue funding for the rail project to keep rail moving forward, and minimize future delays. Thank you kindly for allowing me to submit this testimony.

Sincerely,

Kiran Polk
Executive Director

The Twenty-Ninth Legislature
Regular Session of 2017

THE SENATE

Committee on Transportation and Energy

Senator Lorraine R. Inouye, Chair

Senator Donovan M. Dela Cruz, Vice Chair

Committee on Public Safety, Intergovernmental, and Military Affairs

Senator Clarence K. Nishihara, Chair

Senator Glenn Wakai, Vice Chair

State Capitol, Conference Room 225

Monday, February 6, 2017; 3:00 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON S.B. 1183
RELATING TO TAXATION

The ILWU Local 142 supports S.B. 1183, which authorizes counties that have established a surcharge on state tax prior to 7/1/2015 to extend the surcharge in perpetuity. The bill further authorizes counties that have not established a surcharge by 7/1/2017 to establish a surcharge on state tax. S.B. 1183 also provides that the State shall retain an unspecified portion of surcharge proceeds for DOT and requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis.

S.B. 1183 has real potential for addressing the rail project on Oahu, the single largest capital improvement project in the State's history. Given the number of challenges currently facing the project, especially the financial shortfall based on the plans that were first proposed, this bill offers support to address these challenges.

The rail project is partially completed and it would make no sense to "pull the plug". Polling of the Oahu residents have made this point clear. S.B. 1183 provides a beginning point to resolve some of the key issues that will hopefully lead to the completion of the Oahu rail project. It also provides other counties with options to address significant challenges on their own islands.

The ILWU urges passage of S.B. 1183. Thank you for the opportunity to share our views on this matter.

howu

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MAILING:

P.O. BOX 970967
WAIPAHU, HAWAII 96797-0967

PHYSICAL:

94-487 AKOKI STREET
WAIPAHU, HAWAII 96797

**Testimony to the Senate Committee on Transportation & Energy; and
Senate Committee on Public Safety, Intergovernmental & Military Affairs
Monday, February 6, 2017
3:00 pm
Conference Room 225**

RE: SB 1183 & SB 1176 – Relating to Taxation

Chairs Inouye & Nishihara, Vice-Chair Dela Cruz & Wakai, and members of the committees:

My name is Gladys Quinto Marrone, CEO of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

BIA-Hawaii is in support of SB 1183 & SB 1176, Relating to Taxation. BIA-Hawaii has been a strong proponent of the rail transit system as an appropriate "growth management" tool to increase the population density along the 20-mile transit corridor. To stop support for the transit system at this time would prevent future growth without a significant investment in roadway infrastructure, or allowing for more development into areas not currently planned for future growth (i.e. Hawaii Kai, Windward Oahu, North Shore, and Central Oahu-between Wahiawa and Waiialua).

We continue, however, to be concerned about the level of transparency and accountability as the project moves forward. We understand that in any construction project you will encounter delays and unforeseen circumstances that may increase construction costs. For a project of this size, a certain degree of cost overrun should be expected.

Our biggest concern is with the lack of information and a plan for providing the necessary infrastructure to support the planned growth within the transit corridor. The City should be required to provide a comprehensive plan to provide the necessary sewer, water, and drainage infrastructure capacity to support the planned densities along the transit corridor. Rather than reacting to or pre-selecting possible or potential landowners/developers along the transit corridor, the City should be proactive in providing the basic backbone infrastructure capacity to support the planned growth and let the market dictate where and when density should be developed along the transit corridor.

Without leadership on how infrastructure capacity should be provided along the transit corridor, investors/developers will be reluctant to pursue projects due to the risk and uncertainty of who will pay for the regional infrastructure improvements.

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

Testimony of WOEDA in Support of SB 1183 and SB 1176

**To: HONORABLE SEN. LORRAINE INOUE
HONORABLE SEN. CLARENCE NISHIHARA
CHAIRS OF THE SENATE TRANSPORTATION AND ENERGY
(TRE) AND PUBLIC SAFETY, INTERGOVERNMENTAL AND
MILITARY AFFAIRS (PSM)**

Date: February 6, 2017

Time: 3:00 PM

Place: Senate Conference Room 225

Honorable Chair and Members of the Committee,

I am Chris Lee, president of the West Oahu Economic Development Association, also known as WOEDA. I am writing you in support of SB 1183 and SB 1176, which extend the general excise tax surcharge to complete the rail project.

Our association is made up of business, community and government leaders dedicated to supporting the economic growth of West Oahu. Our area is the fastest growing population and business base in the state, with much more growth expected in the future as Kapolei builds out.

For business, time is money. Traffic congestion adds unnecessarily to the cost of doing business. Many of us, our employees and our customers have to travel regularly between downtown Honolulu and Kapolei. Delays due to traffic are an everyday occurrence for many leeward commuters.

WOEDA believes that the rail project is vital to the success and well being of the "new city" of Kapolei. We strongly support the rail project because it will reduce future traffic congestion, make it easier to travel between downtown and West Oahu and improve the business climate of our island.

Rail construction is already underway, and we need to complete construction and finish the job. We are concerned that any delay would only cost the public much more money in the end. Building the full 20 mile, 21 station alignment would maximize transportation benefits for not only leeward commuters, but residents who live in urban Honolulu.

Therefore, we respectfully request your approval of these measures that would provide sufficient funding to complete the rail project that will link urban Honolulu with the city of Kapolei.

Thank you for allowing me to provide you with our testimony.

A handwritten signature in black ink, appearing to read "Chris Lee", with a stylized flourish at the end.

Christopher S. Lee
West Oahu Economic Development Association, President

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Indefinitely Extend County Surcharge on State Tax

BILL NUMBER: SB 1183; HB 1442 (Identical)

INTRODUCED BY: SB by INOUE, S. CHANG, DELA CRUZ, GALUTERIA, HARIMOTO, K. KAHELE, KIDANI; HB by AQUINO

EXECUTIVE SUMMARY: This bill not only allows the City & County of Honolulu to adopt the county surcharge on the general excise tax indefinitely, but it also allows the other counties to adopt a similar surcharge.

The bill presents many policy issues, including the scope of what the tax is supposed to cover. Policymakers need to decide exactly what it is they are funding, and the extent to which they are willing to write the counties a blank check. If it is to fund operational and maintenance costs, the statute needs to be amended to permit this, and taxpayers may well conclude that they have been lied to when the tax was adopted.

One large problem that has not yet been addressed is the 10% of all collections that goes directly into the general fund, ostensibly to pay for costs of collection but which is grossly in excess of those costs. The Foundation has contended in court proceedings that it is an unconstitutional tax that discriminates against Oahu businesses, and must be fixed.

BRIEF SUMMARY: Amends HRS section 46-16.8 to allow any county to establish a surcharge on GET by ordinance. Collection of the surcharge will begin on January 1, 2018 for any county that has not yet adopted one but does.

For a county with population greater than 500,000, the surcharge revenue shall be only used for capital costs of a locally preferred alternative for a mass transit project and Americans with Disabilities Act compliance, and not for operating costs or to build or repair public roads or highways, bicycle paths, or support preexisting public transportation systems.

For a county with population 500,000 or less, the surcharge revenue shall be used only for operating or capital costs of public transportation within each county for public transportation systems, including public roadways or highways, public buses, trains, ferries, pedestrian paths or sidewalks, or bicycle paths, or ADA compliance relating to such projects.

Amends HRS section 248-2.6 to provide that collections of the surcharge be paid to the appropriate county or counties monthly. Provides that __ % of the gross proceeds shall be used by the state department of transportation.

Makes a conforming amendment to section 238-2.6, HRS.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This bill relates to the 0.5% surcharge on the general excise tax that is currently imposed in the City and County of Honolulu, sometimes known as the “rail surcharge.” As originally enacted, the rail surcharge was scheduled to sunset on December 31, 2022. The surcharge authority was extended to December 31, 2027, by Act 240, Session Laws of Hawaii 2015, and the City & County of Honolulu extended the surcharge as authorized by Ordinance 16-1. To date, no other county has adopted a surcharge ordinance.

When the surcharge legislation was adopted back in 2006, taxpayers, especially those in Honolulu, were assured that the 0.5% surcharge was going to be temporary. And, as is now explicitly stated in HRS section 46-16.8. the funds were supposed to be paid to build the system, and not go toward operations and maintenance (which are never-ending expenses). It now appears that the rail project may have cost overruns and additional funding is necessary.

This measure presents a number of issues.

Should the Surcharge Be Extended, and If So, By How Much? This measure makes the surcharge *permanent*. An extension from 2027 to forever is a very long time, and it marks a shift in philosophy.

- If the surcharge is to pay for the *capital cost of the system as it is now proposed* which seems to have been the original intent, then an extension to finish what was started appears to be unavoidable, but our lawmakers must be vigilant to make sure the scope does not creep beyond what the people are willing to allow.
- If the surcharge is to pay for the *capital cost of the system and extensions of it*, such as the mayor’s proposal to extend the system from Ala Moana Center to the University of Hawaii, then lawmakers need to ask themselves if this is properly part of the deal. If it is, then a somewhat longer extension of the surcharge may be needed to fund it.
- If the surcharge is to pay for the *capital cost and operations* (which is not allowed by section 46-16.8 as it is now written), then an indefinite extension is required. But it will then be obvious to voters across the state that they had been lied to when they were assured that the surcharge was to be temporary. This brings to mind the famous quote by Darth Vader in *The Empire Strikes Back*: “I am altering the deal. Pray I don’t alter it any further.”

What Is to Be Done About the 10% Diversion for Administrative Costs? Under the existing surcharge in the case of the City and County of Honolulu, a contributing factor to the financial woes of the City and County is the fact that the state is siphoning 10% of all surcharge collections into the general fund. This diversion was supposed to represent payment to the state for the costs incurred in administering the surcharge. After all, the department of taxation collects and enforces the tax and just writes the county a check. But the amount diverted turns out to be a massive amount of money, roughly \$25 million a year which is almost as much as the entire operating budget of the department of taxation. The amount is obviously far more than the costs involved. The Foundation has contended that a diversion of the City and County’s revenue of that magnitude is unconstitutional and its lawsuit is still pending in the court system. If the

measure were to approximate the costs involved, our estimate is that the deduction should be about 40 or 50 basis points (0.4% to 0.5%) instead of 10%.

The language used in this bill drops the pretense that the 10% retained is for administrative costs. Instead, the percentage is changed to a yet unspecified amount to be expended by the state department of transportation. As amended, the retained amount is a tax to benefit all state residents, and it is only paid by businesses and residents of the county authorizing the surcharge. Something is still gravely wrong.

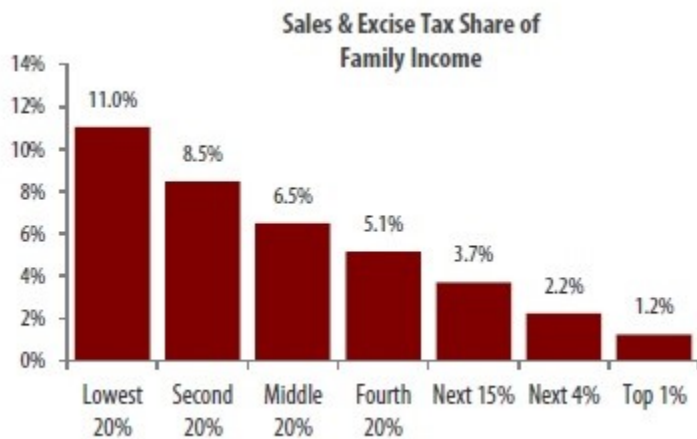
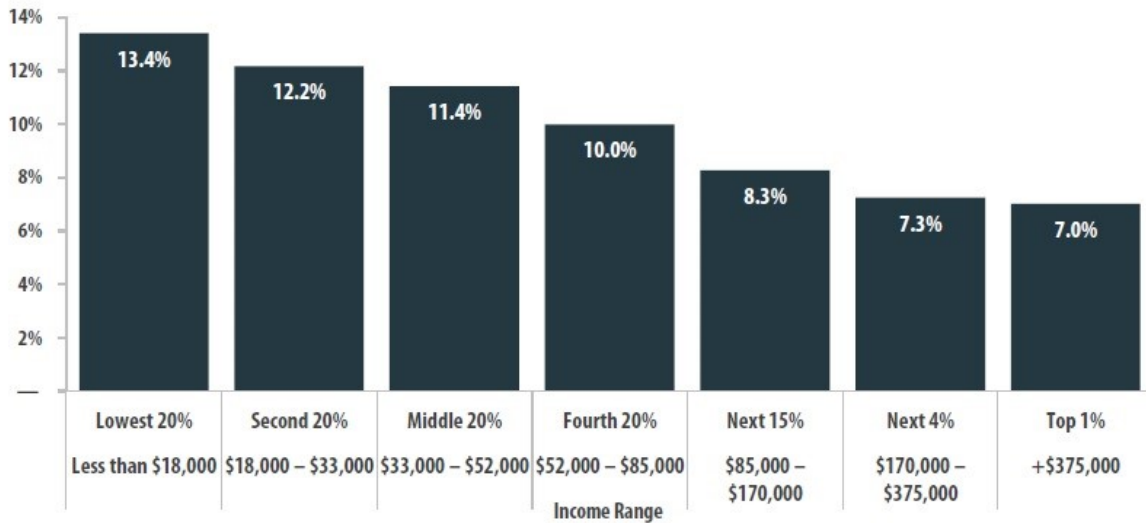
Is It “Fair”? Our tax system has been roundly criticized for being unfair to those on the lower end of the income spectrum. In particular, a 2015 study from the Institute on Taxation and Economic Policy (ITEP) (<http://www.itep.org/pdf/whopaysreport.pdf>) asserts that the lowest 20% of our population pays 13.4% of its income in state and local taxes, while the top 1% pays 7.0%. Because of this, that study called our tax system the 15th most unfair in the country.

Hawaii State & Local Taxes in 2015

Details, Tax Code Features, & Tax Code Changes Enacted in 2013 & 2014

Income Group	Lowest	Second	Middle	Fourth	Top 20%		
	20%	20%	20%	20%	Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$33,000	\$33,000 – \$52,000	\$52,000 – \$85,000	\$85,000 – \$170,000	\$170,000 – \$375,000	\$375,000 or more
Average Income in Group	\$10,100	\$25,000	\$42,100	\$66,800	\$116,800	\$236,500	\$811,300
Sales & Excise Taxes	11.0%	8.5%	6.5%	5.1%	3.7%	2.2%	1.2%
General Sales—Individuals	4.9%	3.9%	3.0%	2.3%	1.7%	1.0%	0.5%
Other Sales & Excise—Ind.	2.4%	1.6%	1.1%	0.9%	0.6%	0.3%	0.1%
Sales & Excise on Business	3.8%	3.0%	2.4%	1.9%	1.5%	0.9%	0.6%
Property Taxes	1.9%	1.2%	1.5%	1.3%	1.2%	1.3%	1.2%
Property Taxes on Families	1.8%	1.1%	1.4%	1.2%	1.1%	0.9%	0.5%
Other Property Taxes	0.1%	0.1%	0.0%	0.1%	0.2%	0.4%	0.7%
Income Taxes	0.5%	2.6%	3.7%	4.1%	4.3%	4.7%	5.9%
Personal Income Tax	0.5%	2.6%	3.7%	4.1%	4.3%	4.7%	5.8%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total Taxes	13.4%	12.3%	11.6%	10.5%	9.2%	8.3%	8.4%
<i>Federal Deduction Offset</i>	—	–0.1%	–0.2%	–0.5%	–0.9%	–1.1%	–1.4%
OVERALL TOTAL	13.4%	12.2%	11.4%	10.0%	8.3%	7.3%	7.0%

Shares of family income for non-elderly taxpayers



These charts from the ITEP study shows us that the problem is that we have very broad excise taxes, which fund basically half of our state government. Excise taxes apply without regard to the payer’s ability to pay the tax. The lower your income, the greater the portion of your income must be spent to buy essentials like food, water, and power. Those who have more money spend as well, but they don’t need to spend as much in proportion to what they make. Our excise taxes are imposed on spending, so naturally they will fall more heavily on the poor as a proportion of their incomes. Here, the chart shows that excise taxes take up 11% for those in the lowest 20% income group, while taking up 1.2% for those in the top 1%. That difference explains the regressivity of our tax system, and is the root of the unfairness called out in the ITEP study.

The general excise tax is all-encompassing. The Hawaii courts have said it covers “virtually every economic activity imaginable.” *Pratt v. Kondo*, 53 Haw. 435, 436, 496 P.2d 1, 2 (1972). Not only does the general excise tax increase the cost of doing business, but it affects the cost of all other non-food purchases, be it clothes, textbooks for university students, rent for

those people who don't own their shelter which are generally the poor and middle class, the price at the pump for gasoline – everything right down the line.

More importantly, because the general excise tax is a tax on gross income, most businesses will try to recover as much of the cost of the tax by passing it on to the customer; that recovery is itself taxable. As Oahu taxpayers learned when the 0.5% surcharge on the general excise tax for transit went into effect, the amount passed on to the customer went not from 4% to 4.5% but the charge passed on at the drug store, grocery store, and so forth went from 4.166% to 4.712%. Thus, the tax rate passed on is more than the nominal 0.5%.

The bottom line is the same across the board. It is not a matter of not having enough revenue as it is the unwillingness of elected officials to tighten the counties' or the state's purse strings in bringing expenditures into line with resources and setting priorities for what resources are already available. Instead of doing the fiscally responsible thing, the easiest response is to just raise more taxes, as evidenced by this measure.

Digested 2/5/2017

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 2:46 AM
To: TRE Testimony
Cc: darakawa@lurf.org
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
David Z. Arakawa	Land Use Research Foundation of Hawaii	Support	Yes

Comments: The Land Use Research Foundation of Hawaii (LURF) is in STRONG SUPPORT of SB 1183 relating to the extension of the Rail Tax in perpetuity. This measure authorizes counties that have established a surcharge on state tax prior to 7/1/2015 to extend the surcharge in perpetuity; authorizes counties that have not established a surcharge by 7/1/2017 to establish a surcharge on state tax; provides that the State shall retain an unspecified portion of surcharge proceeds for DOT; and requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis. LURF respectfully urges the Senate TRE/PSM Committees to favorably consider SB 1183.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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KAPOLEI

February 6, 2017
3:00 p.m.
Conference Room 225
State Capitol

Chair Lorraine Inouye,
Chair Clarence Nishihara, and
Members of the Senate Transportation and Energy (TRE) and
Public Safety, Intergovernmental and Military Affairs (PSM) Committees

Honorable Chairs and Members of the TRE and PSM Committees,

Testimony in Support of SB1183 and SB 1176, Relating to Taxation

The James Campbell Company LLC supports SB1183 and SB 1176. These measures extend the general excise tax surcharge for the Honolulu rail transit project.

We see no other option but to extend the general excise tax surcharge to complete the rail transit system as originally planned. Shortening the rail system because of a lack of funding will run afoul of the City and County of Honolulu's Full Funding Grant Agreement with the Federal Transit Administration (FTA), creating large tax payer liabilities to return federal funds and leaving island residents with an incomplete system. Even if the agreement were to be renegotiated with the FTA to facilitate a shorter system, the new environmental studies that will be required to assess reduced ridership, and the resulting potential litigation, would add years to the project or stop it entirely. Further delays will result in even greater project costs than currently estimated given our State's propensity for year over year construction cost escalations.

Much of the State's future population growth is slated for the Kapolei region. Kapolei is quickly becoming Oahu's new urban center. In the next 20 years, there will be many more new jobs in the region, new homes and thousands of new residents will call Kapolei home. Our company has long supported Honolulu's rail transit project. We view rail as an important component of much needed transportation infrastructure that will facilitate the growth, development and long term prosperity of the City of Kapolei

We wish to express our continued support for the rail project, and respectfully request your approval of SB 1183 and SB 1176 to continue funding for the rail project to keep rail moving forward, and minimize future delays.

Sincerely,

Stephen H. Kelly
Vice President, Development

04001300\K10487



HAWAII LABORERS-EMPLOYERS COOPERATION AND EDUCATION TRUST
650 Iwilei Road, Suite 285 · Honolulu, HI 96817 · Phone: 808-845-3238 · Fax: 808-845-8300

**TESTIMONY OF HAWAII LECET
CLYDE T. HAYASHI - DIRECTOR**

SENATE COMMITTEE ON TRANSPORTATION AND ENERGY
Senator Lorraine R. Inouye, Chair
Senator Donovan M. Dela Cruz, Vice Chair

SENATE COMMITTEE ON PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS
Senator Clarence K. Nishihara, Chair
Senator Glenn Wakai, Vice Chair

AMENDED NOTICE OF HEARING

DATE: Monday, February 6, 2017
TIME: 3:00 p.m.
PLACE: State Capitol, Conference Room 225

TESTIMONY ON SENATE BILL NO. 1183 RELATING TO TAXATION

ALOHA COMMITTEE CHAIR LORRAINE INOUE, COMMITTEE CHAIR CLARENCE NISHIHARA, AND COMMITTEE MEMBERS OF BOTH COMMITTEES:

My name is Clyde T. Hayashi, and I am the Director of Hawaii LECET. Hawaii LECET is a labor-management partnership between the Hawaii Laborers Union, Local 368, and its unionized contractors.

Mahalo for the opportunity to testify in **STRONG SUPPORT** of Senate Bill No. 1183. This bill authorizes counties that have established a surcharge on state tax prior to 7/1/2015 to extend the surcharge in perpetuity.

The Honolulu Rail Project must be completed to Ala Moana Shopping Center (the full 20 miles, 21 stations and 80 cars) or we may jeopardize the \$1.55 billion in federal funds. It is the only major transportation project planned for Oahu to provide major traffic relief and will provide a much needed transportation alternative for residents, and because it is elevated, will be independent from our highway system. The rail system will take cars off the road and provide a daily commuting alternative, especially for the thousands of residents whose destinations are the airport, Downtown, Kakaako/Ala Moana, and Waikiki areas.

The completion of the Honolulu Rail Project will provide us the opportunity for building more affordable housing, especially around rail stations. With properly planned TOD, it will help us to build a modern, sustainable Honolulu.

We believe that extending the Rail .5 percent GET Surcharge beyond the December 31, 2027 sunset date is the best way to ensure that the Rail Project can be completed to Ala Moana Shopping Center. We support a Rail GET Surcharge extension in perpetuity. If the percentage of the surcharge coming to Oahu is decreased, it has to be enough to complete the original locally preferred alternative to Ala Moana Shopping Center. Oahu residents are already set to pay the Rail .5 percent GET Surcharge until December 31, 2027. An extension of the surcharge to complete Rail means that residents will NOT pay anything more until January 1, 2028.

Regardless of how the Rail project is funded, the residents of Honolulu will have to pay for it. We are set to pay the Rail .5 percent GET Surcharge until December 31, 2027 and any other tax enacted to pay for Rail will be in addition to the GET surcharge. It will burden Oahu tax payers even more.

Our thousands of members and our contractors have benefited from the many construction jobs that Rail has created and will continue to create. We also look forward to working on TOD and on the affordable housing projects the completion of Rail will bring about.

For these reasons, I **strongly support** Senate Bill No. 1183.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 11:26 AM
To: TRE Testimony
Cc: mgolojuch@hotmail.com
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
James Mateo	Individual	Support	No

Comments: Testimony of ----- in Support of SB 1183 and SB 1176 To: HONORABLE SEN. LORRAINE INOUYE HONORABLE SEN. CLARENCE NISHIHARA CHAIRS OF THE SENATE TRANSPORTATION AND ENERGY (TRE) AND PUBLIC SAFETY, INTERGOVERNMENTAL AND MILITARY AFFAIRS (PSM) Date: February 6, 2017 Time: 3:00 PM Place: Senate Conference Room 225 Dear Legislators, Kapolei is our Second City and much is coming to this area. As we move forward with more development, we must plan for both growth, sustainability and energy efficiency. Rail costs are rising, and that is certainly a cause for concern. No one is happy about increased expenses and higher taxes. But the bigger, long term picture is Oahu will continue to grow and we need to plan for growth with more sustainable infrastructure, including transportation. Rail is an investment in our future, and the choice to make for a more sustainable island, with less pollution from automobiles. Please approve these bills for the future of Oahu. Sincerely, James Mateo

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 11:23 AM
To: TRE Testimony
Cc: mgolojuch@hotmail.com
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Michele Golojuch	Individual	Support	No

Comments: Aloha, I am Michele Golojuch and a early childhood care provider. I strongly support this measure, which will help the city finish the rail project as soon as possible. We need to get rail transit built now because without this transit project, there will be no transit oriented development. I have heard people talking about TOD and what it will bring to our island and then say they aren't sure about funding the rail. You can't have it both ways. Either you fund rail transit or you can say goodbye to the housing, the jobs and all the other benefits that TOD will deliver. Anyone opposed to funding the rail is opposed to the last best hope we have for providing affordable housing. Right now, we are 18,000 units short of meeting the demand for affordable housing, according to research conducted by the city. By affordable, the city is talking about housing a family earning \$76,000 can afford. And that shortfall is increasing by almost 4,000 units a year, according to local economist Paul Brewbaker. In three years we will be behind by an additional 11,000 units or more. By supporting a GET extension, you are saying you not only support closing this gap, but you also support the right for everyone, not just the wealthy, to live in decent housing. The city, in partnership with the private sector, can add tens of thousands of units of desirable, affordable housing around the rail stations between East Kapolei and Ala Moana. Anyone who says they don't support rail cannot say they truly support affordable housing for the people on Oahu. I urge you to pass this bill and the extension of the GET surcharge and begin addressing our critical need for affordable housing. Mahalo for the opportunity to testify on this measure.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 11:20 AM
To: TRE Testimony
Cc: mgolojuch@hotmail.com
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	Individual	Support	No

Comments: Aloha I strongly support SB 1183, which would extend the GET surcharge and allow the city to finish the rail project as planned. Finishing the project to Ala Moana Center is essential if the project is going to fulfill its promise. Many people who will be taking the train from Leeward and West Oahu work east of downtown at Queens, in Kaka'ako and at Ala Moana Center. They have endured the construction impacts created to build the project. It's only right that they enjoy the benefits. Besides the time saved taking the train, those who work hard for modest pay cannot afford to pay for parking near their work place, not to mention the cost of gas, maintenance and repair to their cars and trucks, as well as time spent in traffic congestion. It's important to remember that many of these workers cannot even afford a car, so public transportation is the only way they can get to and from their jobs. And for all these reasons, there are many people who cannot get to the employment centers where the job are, unless the rail project is completed all the way to Ala Moana Center. I urge you to pass this bill and help the tens of thousands of working people who will need to earn a living and improve their quality of life. Mahalo for the opportunity to testify on this important measure.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 12:34 PM
To: TRE Testimony
Cc: rebecca.ji.soon@gmail.com
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Rebecca Soon	Individual	Support	No

Comments: I am happy to submit my testimony to you today in strong support of SB1183 to extend the 0.5% GET surcharge to support the Honolulu rail project. At its core, I support this measure because it is what is right. Whether you live on the rail route or off of it, rail IS the major infrastructure project of our generation that has the potential to make the difference for the future of Hawai'i. We all opine over the rising cost of land, rapid shrinking of the middle class, and lack of economic opportunities for future generations – rail is one piece in the puzzle that attempts to set Hawai'i on a positive path. As a recent graduate of UH Manoa, I have many peers that would greatly benefit from rail today. As a small business owner, and as a young professional, I know rail is a critical component in building an island community for our future that cares about all people, especially the most marginalized. Decades ago, we as a community decided to centralize growth in West and Central O'ahu. With the development of O'ahu's second city, rapid transit was envisioned as a component to ensure smart growth. Instead, we voted down two projects, which we now look back upon and wish we hadn't. Let's not make the same mistake again. Rail is about many things – creation of jobs, investment in local industry, development of affordable housing, building sustainable communities, and providing social equity through access to economic and educational opportunities. Hawai'i voters wanted each of these things when we voted to support rail in 2008. We now need our Senators and Representatives to make the difficult decisions, which will allow us to complete the project we need. I urge you to vote in favor of SB1183 and support the completion of this important project. Mahalo for the opportunity to share mana'o on this important issue.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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TO: Members of the Committees on Transportation and Energy & Public Safety, Intergovernmental and Military Affairs

FROM: Natalie Iwasa (10 pages)
Honolulu, HI 96825
808-395-3233

HEARING: 3 p.m. Monday, February 6, 2017

SUBJECT: SB1183, SB1176 and SB1276 – **OPPOSE Surcharge Extension**
Support Repeal of 10% Fee
Support Monthly Payment

Aloha Chairs and Committee Members,

Thank you for allowing me the opportunity to provide testimony on SB1183, SB1176 and SB1276, which relate to the county surcharge. Two years ago when the legislature considered the county surcharge extension, I provided examples of errors and inconsistencies in HART's numbers. Here we are two years later, and the problem persists.

In November 2016, HART presented its FY 2018 budget package to the board. The package includes projected cash flows. On December 1, 2016, HART sent the FTA an updated financial plan. That plan also includes projected cash flows, but they are significantly different than those presented to the board.

Attached is a calculation of the differences between the budgeted cash flows and the amounts reported to the FTA. The explanation I was given for the \$43.6 million variance for the beginning of fiscal year 2018 is that there are differing assumptions underlying the two plans. Given that the beginning of fiscal year 2018 (July 1, 2017) was just seven months from the date of the report to the FTA, that explanation didn't make sense.

In addition, if we look at the line items for the inflows and outflows for fiscal year 2018, more questions come to mind. Why are federal and GET funding each almost \$50 million higher in the budget package?

Why is there apparently no debt repayment for fiscal year 2018 in the budget package?

Questions should also be asked about details of the cash projection sent to the FTA. (See attached page 4 of my testimony.) For example, why is there a negative cash flow of \$140 million for total project costs in year 2035, eight years after the last expenditure?

Why is there over \$.5 billion in additional borrowing in year 2025, when projected cash inflows are about \$87 million higher than outflows?

Natalie Iwasa

Page 2 of 10

Last year HART also had an error in the cash balance that it reported to the board in its monthly report. According to a report given to the Honolulu City Council, which included audited cash balances as of March 31, 2016, cash was \$159,111,026. HART's monthly progress report, however, indicated the cash balance was \$158,655,626 or \$455,400 lower. Prior quarterly reports that I checked were no more than \$1 different. (See attached pages 8 - 10.)

We simply cannot rely on HART's numbers. In addition, now that we are looking at almost \$10 billion (and counting) for the cost of building rail, we have to ask ourselves whether we can even afford to spend that much. Considering that billions of dollars have been mandated for various other costs on Oahu, e.g., the EPA mandate of over \$3 billion and billions in unfunded retirement and employee benefits, I think the answer is "no."

	FTA Update 12/1/2016 \$ millions	HART Financial Audit	Budget Schedule FY 2018	HART Monthly Progress Rpt \$ millions	<i>Approximate Variances \$ millions</i>
Beginning FY 2016 (7/1/15)	192	293,010,823	n/a	293.0 ¹	101.0
Beginning FY 2017 (7/1/16)	95	94,658,680	n/a	94.7 ²	-
Beginning FY 2018 (7/1/17)	25	n/a	68,559,126	n/a	43.6
Beginning FY 2019 (7/1/18)	25	n/a	324,976,125	n/a	300.0

¹ July 2015 report page 17. (Attached page 6.)

² July 2016 report page 19. (Attached page 7.)

CASH FLOW PROJECTIONS VARIANCES

Fiscal Year 2018

	FTA Update 12/1/2016 \$ millions	Budget Schedule	<i>Approximate Variances \$ millions</i>
Beginning cash	\$ 25	\$ 68,559,126	\$ 43.6
Federal grant	246	294,587,133	48.6
GET	212	256,623,959	44.6
Debt proceeds	653	510,000,000	(143.0)
Total inflows	1,111	1,061,211,092	(49.8)
Total project uses	896	804,794,093	91.2
Debt repayment	215	-	215.0
Total outflows	1,111	804,794,093	306.2
Ending cash	\$ 25	\$ 324,976,125	\$ 300.0

FY 2018-2023 SIX-YEAR UPDATED CASH FLOW

Below is six-year cash flow based on assumed revenue sources, estimated financing costs, and forecasts for future years' capital expenditures.

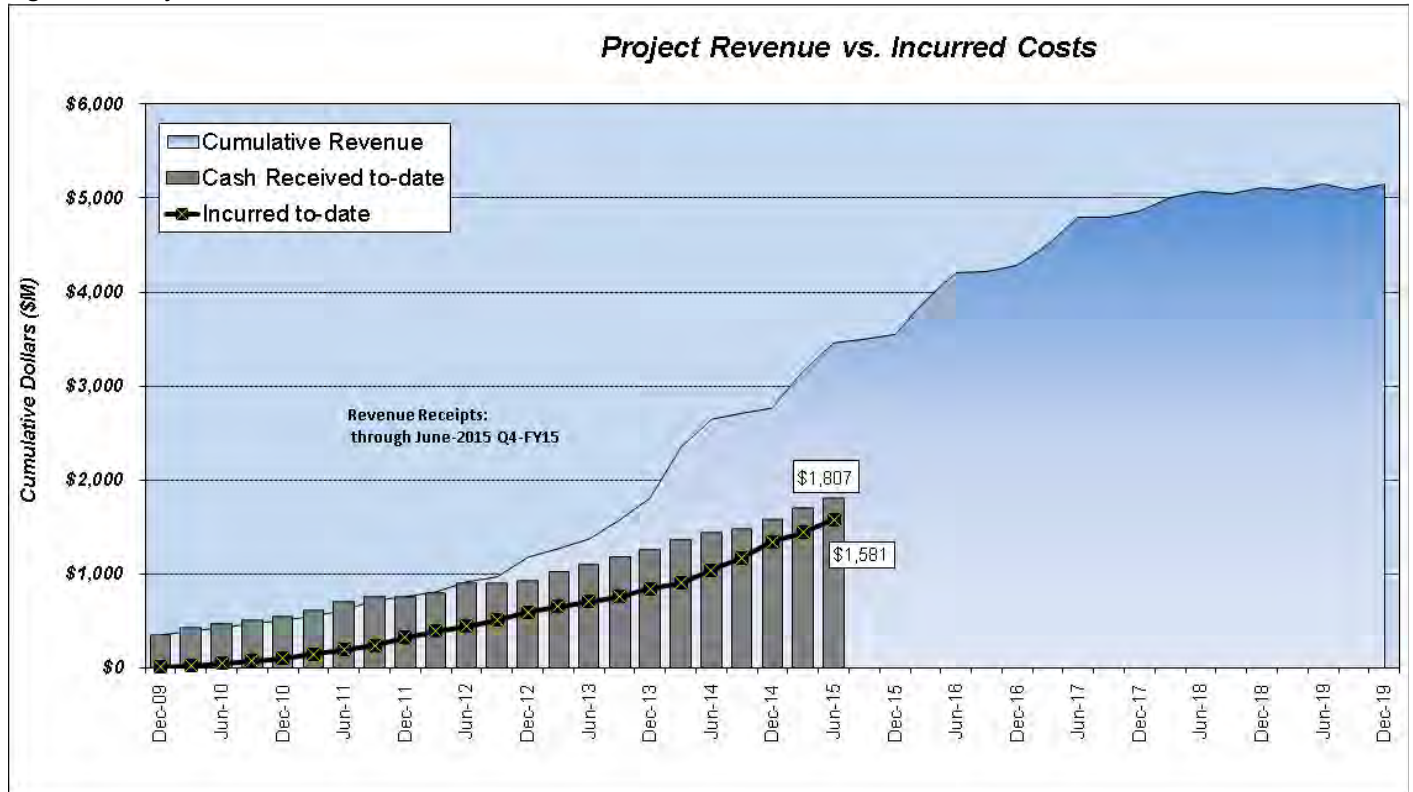
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Six-Year Total
BEGINNING BALANCE	\$ 68,559,126	\$ 324,976,125	\$ 404,658,288	\$ 206,040,573	\$ 308,681,484	\$ 313,070,129	\$ 68,559,126
Revenue & Debt Proceeds							
Revenue							
Federal Grant	294,587,133	229,474,254	213,628,152	2,929,669	-	-	740,619,208
G.E.T.	256,623,959	267,658,790	279,168,119	291,172,347	303,692,758	316,751,546	1,715,067,519
Private/Public	-	-	-	-	-	-	-
Total Revenue	551,211,092	497,133,044	492,796,271	294,102,016	303,692,758	316,751,546	2,455,686,727
Debt Proceeds							
Fixed Rate Bonds	402,302,800	226,602,800	291,862,800	251,702,800	101,102,800	-	1,273,574,000
G.O Bonds:	-	-	-	-	-	-	-
Less Issuance Costs	(2,302,800)	(1,602,800)	(1,862,800)	(1,702,800)	(1,102,800)	-	(8,574,000)
TECP (net) Max \$350 m	110,000,000	63,400,000	(55,800,000)	34,300,000	98,900,000	60,000,000	310,800,000
Variable Bonds	-	-	-	-	-	-	-
Total Debt Proceeds	510,000,000	288,400,000	234,200,000	284,300,000	198,900,000	60,000,000	1,575,800,000
Total Revenue & Debt Proceeds	1,061,211,092	785,533,044	726,996,271	578,402,016	502,592,758	376,751,546	4,031,486,727
Costs							
CIP Type							
Construction	500,759,019	506,074,575	753,111,616	288,844,618	149,774,530	82,345,995	2,280,910,353
Consultants	44,932,240	37,838,212	29,382,733	28,071,532	27,851,817	27,851,817	195,928,351
Contingency	-	-	98	7,955,740	172,127,494	31,600,374	211,683,706
Design	2,609,482	1,059,053	-	-	-	-	3,668,535
Inspection	20,387,315	21,950,961	25,285,309	27,573,371	27,318,236	17,960,329	140,475,521
Operating	12,092,289	11,772,592	11,133,198	11,133,198	11,133,198	11,133,198	68,397,674
Programmatic Agreements	733,874	453,042	-	-	-	-	1,186,916
Project-wide Art	622,830	794,280	794,280	794,280	794,280	794,280	4,594,230
Quality Audits	4,927,451	4,927,451	4,927,451	4,927,451	4,927,451	4,927,451	29,564,707
Recertifications	-	-	-	-	-	-	-
Right of Way	96,993,225	14,516,210	-	-	-	-	111,509,435
Utility Work by Private Utility Owners	84,642,024	68,165,443	60,415,284	63,568,698	58,990,280	27,914,937	363,696,665
Total CIP Costs	768,699,748	667,551,819	885,049,970	432,868,888	452,917,286	204,528,381	3,411,616,093
Operating (less Interest Expense)	24,094,345	25,299,062	26,564,015	27,892,216	29,286,827	30,751,168	163,887,634
Interest Expense	12,000,000	13,000,000	14,000,000	15,000,000	16,000,000	17,000,000	87,000,000
Total Operating Costs	36,094,345	38,299,062	40,564,015	42,892,216	45,286,827	47,751,168	250,887,634
Total CIP & Operating Costs	804,794,093	705,850,881	925,613,986	475,761,104	498,204,113	252,279,549	3,662,503,727
Net Change	256,416,999	79,682,163	(198,617,715)	102,640,911	4,388,645	124,471,997	368,982,999
ENDING BALANCE	\$ 324,976,125	\$ 404,658,288	\$ 206,040,573	\$ 308,681,484	\$ 313,070,129	\$ 437,542,125	\$ 437,542,125
Assumptions:							
1) Revenue & Debt Proceeds from current Cash Flow Annualized PMOC FY 2017							
2) \$6.8B CIP cost flow from Project Controls, Nov 2016							
3) Operating costs assumes 5% annual increase							
4) Interest expense assumes \$1M annual increase							

2.5 Project Revenue and Costs

(data as of June 26, 2015)

Ending Cash Balance 6/30/15 = \$293.0M
(previous report = \$327.3M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan
Data date for Revenue & Incurred Cost = June 26, 2015

Figure 11. Cash Balance Summary

JUNE 30, 2015 CASH BALANCE SUMMARY		
	JUNE	YTD Cumulative
Beginning Cash Balance	327,344,756	441,011,319
Expenditures:		
Operating Expenditures	(1,909,194)	(16,147,106)
Capital Expenditures	(42,790,284)	(508,808,372)
Expenditures Total:	(44,699,478)	(524,955,478)
Receipts:		
GET Surcharge	0	220,793,293
FTA Drawdown	10,276,116	155,546,605
Interest	27,319	239,997
Other (rental, refunds, copy fees, etc.)	62,109	375,088
Receipts Total:	10,365,544	376,954,982
Ending Cash Balance 06/30/15	293,010,823	293,010,823

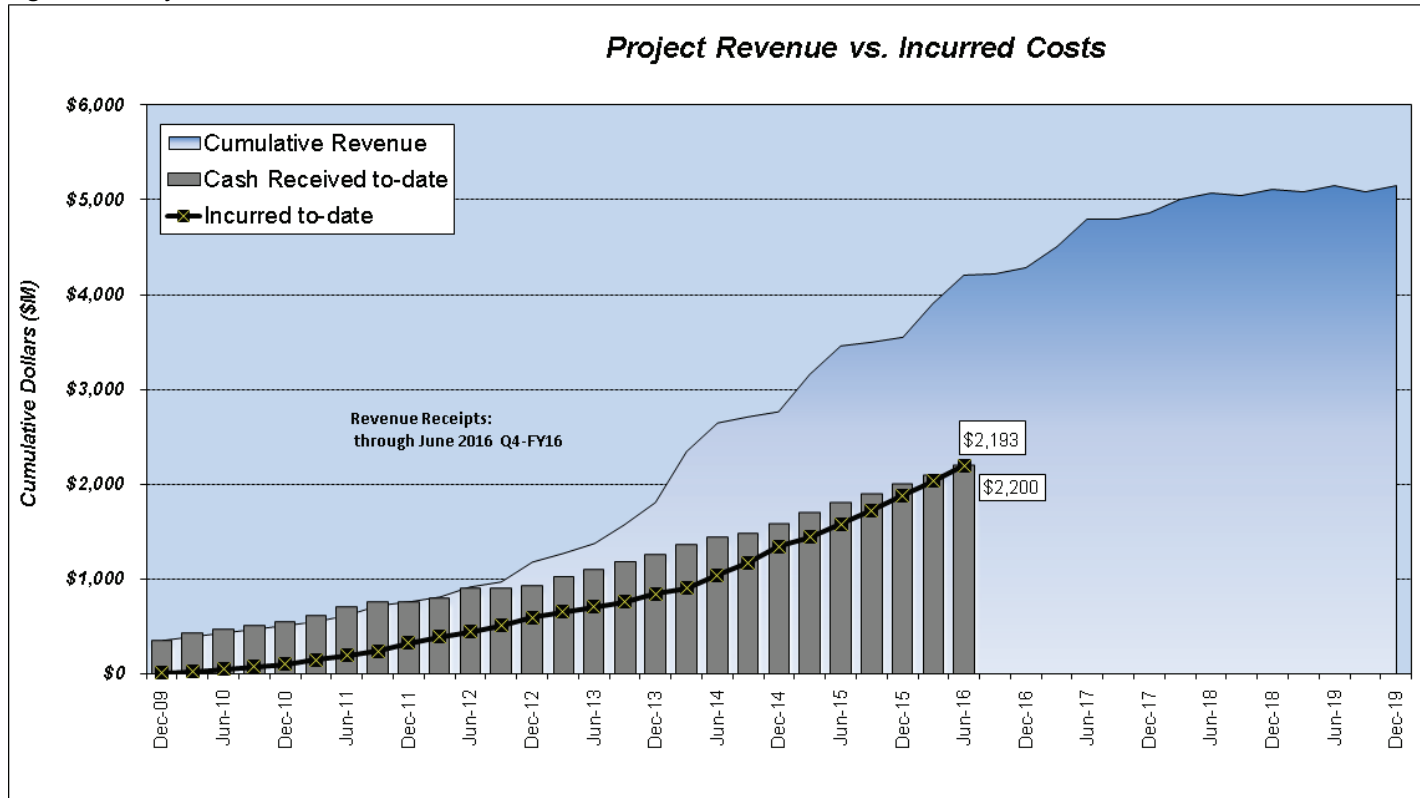
Note: Project Cost Reports can be found in Appendix C.

2.5 Project Revenue and Costs

(data as of June 24, 2016)

Ending Cash Balance 6/30/16 = \$94.7M
(previous report = \$123.0M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan
Data date for Revenue & Incurred Cost = June 24, 2016

Figure 11. Cash Balance Summary

JUNE 2016 CASH BALANCE SUMMARY		
	JUNE	FY16 YTD Cumulative
Beginning Cash Balance 06/01/16	123,016,451	293,010,823
Expenditures:		
Operating Expenditures	(2,587,741)	(17,995,780)
Capital Expenditures	(44,135,061)	(568,037,722)
Expenditures Total:	(46,722,801)	(586,033,502)
Receipts:		
GET Surcharge	0	229,344,241
FTA Drawdown	18,240,510	157,579,174
Interest	115,032	376,077
Other (rental, refunds, copy fees, etc.)	9,489	381,867
Receipts Total:	18,365,031	387,681,360
Ending Cash Balance 06/30/16	94,658,681	94,658,681

Note: Project Cost Reports can be found in Appendix C.

Natalie Iwasa Testimony
Senate Committees Monday, February 6, 2017
HART CASH BALANCE DISCREPANCY

	<u>March 31, 2016</u>
Cash & cash equivalents per report to council	\$ 159,111,026
Cash & cash equivalents per monthly progress report to HART board	158,655,626
Variance	<u>\$ 455,400</u>

NOTE: Amounts reported for 12/31/15 and other quarters agreed or were only \$1 off.

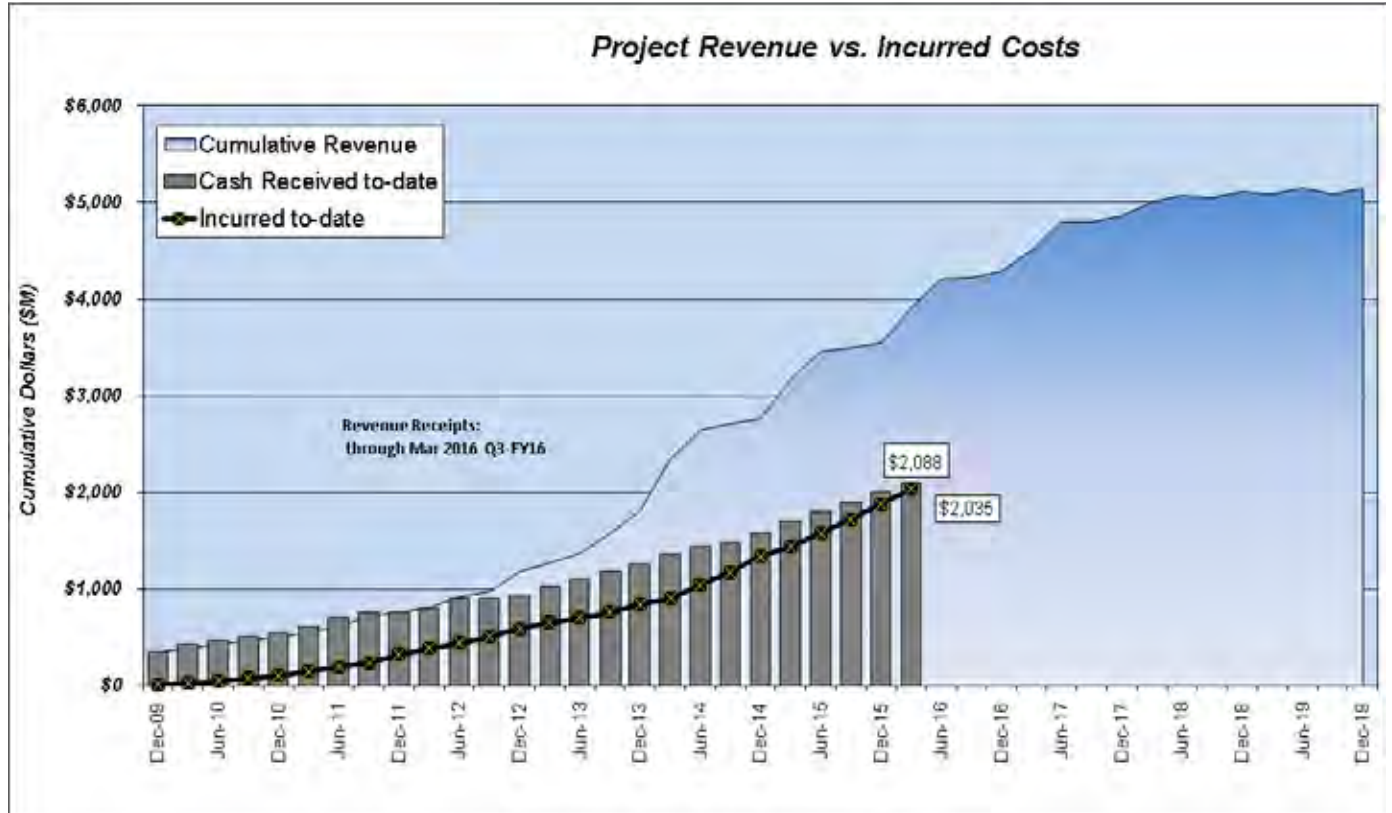
HONOLULU AUTHORITY FOR RAPID TRANSPORTATION
QUARTERLY CASH AND COUNTY SURCHARGE REVENUE REPORT
AS OF March 31, 2016
 (Made Pursuant to City Council Resolution 12-188, CD1)

Interest Revenue			
	FY2007	\$	18,000
	FY2008		3,724,229
	FY2009		3,595,915
	FY2010		246,603
	FY2011		329,693
	FY2012		240,270
	FY2013		310,594
	FY2014		325,874
	FY2015		239,997
	FY2016, Q3		184,036
		\$	<u><u>9,215,210</u></u>
GET Surcharge Revenue			
	FY2007	\$	48,424,383
	FY2008		169,113,552
	FY2009		160,855,727
	FY2010		157,555,320
	FY2011		179,108,573
	FY2012		190,664,994
	FY2013		173,822,505
	FY2014		218,390,853
	FY2015		223,666,342
	FY2016, Q3		177,013,858
		\$	<u><u>1,698,616,107</u></u>
Expenditures to date			
	FY2007	\$	310,285
	FY2008		25,962,676
	FY2009		54,205,206
	FY2010		99,126,584
	FY2011		109,063,791
	FY2012		254,142,462
	FY2013		294,380,188
	FY2014		343,180,946
	FY2015		456,652,423
	FY2016, Q3		347,174,209
		\$	<u><u>1,984,198,770</u></u>
Cash & cash equivalents on hand at March 31, 2016		\$	<u><u>159,111,026</u></u>

2.5 Project Revenue and Costs
(data as of March 25, 2016)

Ending Cash Balance 3/31/16 = \$158.7M
(previous report = \$192.3M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan
Data date for Revenue & Incurred Cost = March 25, 2016

Figure 11. Cash Balance Summary

MARCH 2016 CASH BALANCE SUMMARY		
	MARCH	FY16 YTD Cumulative
Beginning Cash Balance 03/01/16	192,335,290	293,010,823
Expenditures:		
Operating Expenditures	(1,872,167)	(12,132,625)
Capital Expenditures	(41,840,257)	(404,598,819)
Expenditures Total:	(43,712,424)	(416,731,444)
Receipts:		
GET Surcharge	0	168,374,947
FTA Drawdown	9,976,903	113,484,563
Interest	33,400	184,036
Other (rental, refunds, copy fees, etc.)	22,456	332,701
Receipts Total:	10,032,759	282,376,247
Ending Cash Balance 03/31/16	158,655,626	158,655,626

Note: Project Cost Reports can be found in Appendix C.

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 7, 2017 1:37 PM
To: TRE Testimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SB1183 on Feb 7, 2017 13:30PM*

SB1183

Submitted on: 2/7/2017

Testimony for TRE/PSM on Feb 7, 2017 13:30PM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 7, 2017 11:37 AM
To: TRE Testimony
Cc: larryfriedman808@gmail.com
Subject: Submitted testimony for SB1183 on Feb 7, 2017 13:30PM

SB1183

Submitted on: 2/7/2017

Testimony for TRE/PSM on Feb 7, 2017 13:30PM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Lawrence Friedman	Individual	Oppose	Yes

Comments: I am finding it impossible to believe that the Hawaii legislature is entertaining Senate Bills which would provide additional funding for the Honolulu Rail project, given the countless missed projections and failure to meet critical milestones. There are no saving graces to this project with all the failures around engineering faults and unreliable ridership projections. The taxpayers have been lied to each and every time funding has been sought. The FTA refuses to be fooled by empty promises to deliver and holds HART to what has been previously agreed to under the FFGA. This citizen urges the legislature to demand the HART officials and Mayor to be accountable to deliver Rail, as promised within the current approved funding of \$6.8B, with no additional tax burden. It is unconscionable to fathom that the “new” costs are projected at ~\$8B with knowledge that this figure is wrong. The cost is at least \$10B due to the financing costs, which are conveniently left out of the equation. To not include the financing costs in the “new” estimate is misleading. How can it not be a serious red flag to have financing costs increase by more than 10X of the previous cost projection? Further, HART officials and the Mayor are insulting the community leading us to believe that the same GET extension proposal will cover BOTH the \$2B shortfall as well as ongoing operating costs. The GET extension will not cover both. Stop throwing good money after bad. The project is now roughly twice what the taxpayers agreed to. The project continues to miss deliverables to the FTA. The public cannot afford any more taxes. Anyone believing that making the GET permanent will fully solve the shortfalls is ignorant and blind to the big picture. The only way to fully fund this project, with or without the FFGA, is to unjustly tax the citizens to death through increases to every tax under the county’s purview. I implore you to STOP THE BLEEDING! Mahalo, Lawrence Friedman larryfriedman808@gmail.com 629-9426

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 8:21 PM
To: TRE Testimony
Cc: dsrita@hawaii.edu
Subject: Submitted testimony for SB1183 on Feb 6, 2017 15:00PM

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Denice	Individual	Oppose	No

Comments: Do not pass this bill. I would rather pay the Federal Government back, than have to pay a bill for this outrageous project for the rest of my life, my kid's life, and every generation yet to come! This expense has no "sunset", like the tax that is being proposed. I don't even live on that side of the island, and will never use the rail. I would have gladly paid if this project were to support a bus yard on the Windward AND West sides. At least that would have serviced the ENTIRE island. The Rail is a money pit. Again, I, a working tax payer, would rather pay the Federal Government back. At least that eventually comes to an end. Thank you.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 2:36 PM
To: TRE Testimony
Cc: steve@myplaceinparadise.com
Subject: *Submitted testimony for SB1183 on Feb 6, 2017 15:00PM*

SB1183

Submitted on: 2/6/2017

Testimony for TRE/PSM on Feb 6, 2017 15:00PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Steve Miller	Individual	Oppose	Yes

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Good morning Madam Chair and committee members

I am here to today to speak about my opposition to SB 1176 and SB1183.

The Rail project is plagued with issues ranging from construction quality, design and ridership projections to the ballooning construction costs. The latter of which, we are here to address today. I am finding it impossible to believe that the Hawaii legislature is entertaining Senate Bills which would provide additional funding for the Honolulu Rail project, given the countless missed projections and failure to meet critical milestones.

Let's quickly review some of the history of the GET to date:

1. The GET surcharge was narrowly approved by the taxpayers to partially fund the rail project, with the remaining monies expected to come from the Feds under the FFGA.
2. A substantial funding shortfall was identified which led to the GET surcharge extension, voted and passed by the legislature, without public voting.
3. Shortly after the extension, an additional funding gap was identified. At this time, the Mayor assured the public that this shortfall would be covered by private-public partnerships. That was an epic fail.
4. Due to the incompetent actions of the Rail Officials, the project was allowed to press on without an updated financial plan. The financial plan was identified as being problematic in April of 2014...nearly three years ago. Because the financial plan was neglected, the FTA demanded a recovery plan which put the \$1.55B Federal funding at risk.
5. Future debt financing expenses are reeling out of control and the project needs more funding. Finance expenses were estimated at \$173M under the FFGA and are now projected to be at least \$2B, more than 10X over the approved amount.
6. Funding to cover ongoing maintenance and operations has not been identified.

Now we are looking at the GET surcharge to cover funding shortfalls due to not controlling costs, losing federal funding, debt financing AND maintenance and operations? It is impossible for proposed GET projections to cover all these expenditures.

The Rail recovery plan is akin to throwing spaghetti at a wall and seeing what will stick. HART Officials are grasping at straws as a last ditch effort to shove it down the taxpayers' throats. Additionally, there are still unknown costs relative to utility relocation. Trust me, this is not the end.

When you were sworn in, you took an oath to faithfully discharge your duties to the best of your abilities. It is a fact that each and every one of you did not have a campaign agenda to bankrupt the county. You owe it to your constituents to not accept the proposals with blind faith. Blind faith is why this project is failing. Blind faith demonstrates YOU breaching your fiduciary responsibilities to tax payers and that is a disservice to us all.

The taxpayers have been lied to each and every time funding has been sought. The FTA refuses to be fooled by empty promises to deliver and holds HART to what has been previously agreed to under the FFGA. You should be impeached if you do not hold this project to the same scrutiny. This citizen urges

the legislature to demand the HART officials and Mayor to be accountable to deliver Rail, as promised within the current approved funding of \$6.8B, with no additional tax burden.

It is unconscionable to fathom that the “new” costs are projected at ~\$8B with knowledge that this figure is wrong. The cost is at least \$10B due to the financing costs, which are conveniently left out of the equation. To not include the financing costs in the “new” estimate is misleading. How can it not be a serious red flag to have financing costs increase by more than 10X of the previous cost projection? Further, HART officials and the Mayor are insulting the community by attempting to lead us to believe that the same GET extension proposal will cover nearly the \$3B shortfall, debt financing and ongoing maintenance and operating costs. The GET extension will not be sufficient.

Stop throwing good money after bad. The project is now roughly twice what the taxpayers agreed to. The project continues to miss deliverables to the FTA. The public cannot afford any more taxes. Anyone believing that making the GET permanent will fully solve the shortfalls is ignorant and blind to the big picture. It is a very sad story, but learn the lesson and move on to addressing the homeless and aging infrastructure. There is not a fiscally responsible person in the world that would approve the magnitude of this funding increase, knowing by the admission of the Mayor, that the full project costs are unknown.

The only way to fully fund this project, with or without the FFGA, is to unjustly tax the citizens to death through increases to every tax under the county’s purview. The county is already bankrupt.

I implore you to STOP THE BLEEDING! End this fiasco at Middle Street.

HONORABLE LADIES AND GENTLEMEN, MY NAME IS FRANK GENADIO. YOU HAVE MY WRITTEN TESTIMONY OPPOSING BILLS 1183 AND 1176. IN FACT, I OPPOSE ANY BILL THAT EVEN REFERS TO AN EXTENSION OF THE SURCHARGE. IT IS TIME TO PAUSE THE RAIL PROJECT AND CONDUCT A DETAILED REVIEW OF NOT ONLY ITS FINANCES BUT ALSO ITS TECHNOLOGY AND ALIGNMENT. MY ADVOCACY FOR THE NEWEST MAGNETIC LEVITATION TECHNOLOGY IS AN EFFORT TO SAVE THE RAIL PROJECT, KEEP IT ELEVATED AND AUTOMATED, AND COMPLETE IT WITHOUT NEED FOR ANY FUNDING BEYOND THE ANTICIPATED \$6.8 BILLION. THE REVIEW SHOULD COVER AND COMPARE THE EXISTING STEEL WHEELS PLAN, CONVERSION TO MAGLEV, AND CONVERSION TO AN AT-GRADE SYSTEM. IT IS TIME FOR THE CITY AND HART TO STOP MAKING PROMISES THEY CANNOT KEEP, FACE REALITY, AND END THEIR RAIDS ON THE POCKETS OF O'AHU TAXPAYERS. THEIR OFFICIALS SHOULD, INSTEAD, ASK THE FEDERAL TRANSIT ADMINISTRATION FOR ITS ASSISTANCE IN BRINGING IN ENGINEERING TEAMS TO CONDUCT THE REVIEW.

IT ALSO IS TIME FOR THE STATE TO REPEAL ITS TEN PERCENT WITHHOLDING OF O'AHU TAX REVENUES THROUGH PASSAGE OF BILL 1276. SINCE HART SEEMS TO HAVE CEASED MAKING FINANCIAL REPORTS AVAILABLE IN THE MEDIA, I CAN ONLY ESTIMATE THAT PERHAPS \$200 MILLION OF THE SURCHARGE HAS BEEN RAKED OFF FOR THE GENERAL FUND, EASILY THE MOST EXPENSIVE ADMINISTRATIVE AND HANDLING FEE EVER.

PANDERING OF CITY

OFFICIALS AS WELL AS SOME ELECTED STATE LEGISLATORS FOR GIVING THE STATE EVEN HIGHER "CUTS OF THE PIE" HAS BEEN JUSTLY EXCORIATED BY MANY RESIDENTS THROUGH LETTERS

TO EDITORS AND ONLINE COMMENTS.

YOU HAVE THE OPPORTUNITY IN THIS SESSION TO LEAD THE RAIL PROJECT BACK TO A TECHNICALLY DOABLE AND FISCALLY RESPONSIBLE FOOTING OR, CONVERSELY, COLLUDE IN CONTINUING TO MAKE O'AHU RAIL THE WORST MANAGED INFRASTRUCTURE PROJECT IN THE NATION. YOUR ACTIONS WILL BE REMEMBERED IN THE 2018 AND 2020 ELECTORAL CAMPAIGNS. PLEASE DO THE RIGHT THING. MAHALO.