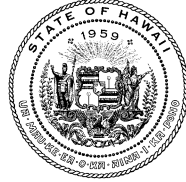


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 1776, Proposed H.D. 1, Relating to Taxation

Date: Wednesday, February 19, 2020

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) appreciates the intent of this bill and offers the following comments on H.B. 1776, Proposed H.D. 1.

H.B. 1776, Proposed H.D. 1, extends the deadline for a county to adopt an ordinance to establish a general excise tax surcharge from March 31, 2019 to December 31, 2020, and allows the counties with population of 500,000 or less to use the revenues from the surcharge for affordable housing infrastructure to provide housing for households with incomes of less than 140% of the median income as determined by United States Department of Housing and Urban Development. To date, Honolulu, Kauai, and Hawaii Counties have adopted a County Surcharge (CS). Thus, the extension to adopt a CS will only affect Maui County. Proposed H.D. 1 is effective upon approval.

H.B. 1776, Proposed H.D. 1, requires that the county ordinance be adopted prior to December 31, 2020 with imposition and collection of the CS to begin July 1, 2021. Six months is sufficient to make form changes, develop and test technical configurations, and educate taxpayers. However, major form changes are generally made at the start of the calendar year. For consistency and ease of tax administration, the Department respectfully requests that the county ordinance be adopted prior to June 30 with imposition and collection of the CS to begin the following January 1.

Thank you for the opportunity to provide comments.

Harry Kim
Mayor



Roy Takemoto
Managing Director

Barbara J. Kossow
Deputy Managing Director

County of Hawai'i Office of the Mayor

25 Aupuni Street, Suite 2603 • Hilo, Hawai'i 96720 • (808) 961-8211 • Fax (808) 961-6553
KONA: 74-5044 Ane Keohokālole Hwy., Bldg C • Kailua-Kona, Hawai'i 96740
(808) 323-4444 • Fax (808) 323-4440

February 18, 2020

Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Committee on Finance

Dear Chair Luke, Vice Chair Cullen, and Committee Members:

RE: **HB 1776 Proposed HD1 Relating to Taxation**

Several bills are being considered by this year's Legislature which would extend a County's opportunity to adopt a GET surcharge. As I testified on another bill, Hawai'i County has adopted its surcharge on State tax, and therefore would not be affected directly by adoption of such an extension. Nevertheless, I thought that it was appropriate for me to support my counterparts in other counties as they face financial issues unique to their jurisdictions.

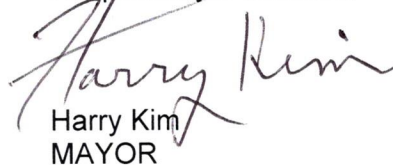
Then disaster relief was added to the mix in SB 2686, and in that respect Hawai'i County would see a direct benefit through flexibility, so I asked that SB 2686, SD1 be approved.

Now HB 1776, proposed HD1, would add something new again, the welcome addition of flexibility in the form of spending on affordable housing infrastructure. However, this comes with the limitation that, if the county ordinance is adopted after December 2019, the revenue raised can only be used for such infrastructure.

I cannot say whether such a restriction is acceptable to other jurisdictions, and I defer to them on that matter. For Hawai'i County, we would welcome maximum flexibility, and if the Legislature were willing to add disaster relief and affordable housing to allowable expenditures, that would be a step—maybe two steps—in the right direction.

Thank you for your consideration.

Respectfully Submitted,

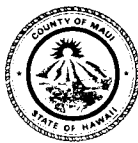

Harry Kim
MAYOR

Council Chair
Alice L. Lee

Vice-Chair
Keani N.W. Rawlins-Fernandez

Presiding Officer Pro Tempore
Tasha Kama

Councilmembers
Riki Hokama
Kelly Takaya King
Michael J. Molina
Tamara Paltin
Shane M. Sinenci
Yuki Lei K. Sugimura



Director of Council Services
Traci N. T. Fujita, Esq.

COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 18, 2020

TO: Honorable , Chair Luke, Chair
House Finance Committee

FROM: Yuki Lei K. Sugimura
Councilmember

A handwritten signature in black ink that reads "Yuki Lei K. Sugimura". The signature is written in a cursive, flowing style.

SUBJECT: **HB1776 PROPOSED HD1, RELATING TO TAXATION**

Thank you for the opportunity to testify in **support** of this important measure. The purpose of this measure is to provide a means to temporarily increase GET for affordable housing infrastructure development.

I SUPPORT this measure for the following reasons:

1. Clarifies that funds is to be used for infrastructure development for affordable housing projects without passing costs to the developer, thus reducing the cost of the homes
2. Supports the increased number of affordable homes in the project due to infrastructure provided by funds authorized in this measure
3. Provides a sunset date by which goals of the measure is to be fulfilled.

For the foregoing reasons, I respectfully request your support of this measure. Thank you for this opportunity to provide my opinion on this important matter.

Council Chair
Alice L. Lee

Vice-Chair
Keani N.W. Rawlins-Fernandez

Presiding Officer Pro Tempore
Tasha Kama

Councilmembers
Riki Hokama
Kelly Takaya King
Michael J. Molina
Tamara Paltin
Shane M. Sinenci
Yuki Lei K. Sugimura



Director of Council Services
Traci N. T. Fujita, Esq.

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February 18, 2020

TO: The Honorable Sylvia Luke, Chair
House Committee on Finance

FROM: Kelly Takaya King
Councilmember

SUBJECT: **HEARING OF FEBRUARY 19, 2020; TESTIMONY IN SUPPORT OF HB 1776, RELATING TO TAXATION**

Thank you for the opportunity to testify in **support** of this important measure. The purpose of this measure is to extend the period in which a county may adopt a surcharge on the State General Excise Tax to June 30, 2021.

This measure is part of the Maui County Council's Legislative Package. I offer this testimony in my capacity as an individual member of the Maui County Council.

I support this measure for the following reasons:

1. Maui is experiencing a housing crisis and passed a climate emergency resolution at the end of 2019. This measure would aid Maui County by providing much needed funds to build and expand infrastructure for housing, tackle the climate emergency, and expand multimodal transportation systems.
2. Maui County is the only county in the state that currently is not receiving the benefits of the surcharge on state tax.
3. Maui County Council and the Maui County Mayor has prioritized the surcharge extension, including it in their Legislative Packages.

For the foregoing reasons, I **support** this measure.

Council Chair
Alice L. Lee

Vice-Chair
Keani N.W. Rawlins-Fernandez

Presiding Officer Pro Tempore
Tasha Kama

Councilmembers
Riki Hokama
Kelly Takaya King
Michael J. Molina
Tamara Paltin
Shane M. Sinenci
Yuki Lei K. Sugimura



Director of Council Services
Traci N. T. Fujita, Esq.

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February 18, 2020

TO: The Honorable Sylvia Luke, Chair
House Committee on Finance

FROM: Alice L. Lee
Council Chair

SUBJECT: **HEARING OF FEBRUARY 19, 2020; TESTIMONY IN SUPPORT OF HB 1776, RELATING TO TAXATION**

Thank you for the opportunity to testify in **support** of this important measure. The purpose of this measure is to extend the period in which a county may adopt a surcharge on the State General Excise Tax to June 30, 2021.

This measure is part of the Maui County Council's Legislative Package; therefore, I offer this testimony on the Council's behalf.

The Maui County Council supports this measure for the following reasons:

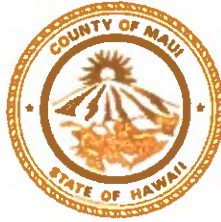
1. This measure would provide much-needed diversification of Maui County's ability to generate revenue, allowing for greater investment in infrastructure and other priorities for Maui County's residents while limiting the burden on residents subject to the Real Property Tax.
2. Maui County is the only county in the State that is not receiving the benefits of a GET surcharge.
3. Maui County Council legislative efforts to establish a GET surcharge are underway in anticipation of this measure's enactment. The Council referred my bill for an ordinance establishing the surcharge to its Economic Development and Budget Committee earlier this month.

For the foregoing reasons, the Maui County Council **supports** this measure.

MICHAEL P. VICTORINO
Mayor

MARC I. TAKAMORI
Director

MICHAEL B. DU PONT
Deputy Director



**DEPARTMENT OF TRANSPORTATION
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793**

TELEPHONE: (808) 270-7511
FAX: (808) 270-7505

February 18, 2020

TO: The Honorable Representative Sylvia Luke, Chair
The Honorable Representative Ty J.K. Cullen, Vice Chair
Committee on Finance

Hearing Date/Time: Wednesday, February 19, 2020 2:00PM
Place: Hawaii State Capitol, Conference Room 308
415 South Beretania Street

FROM: Marc I. Takamori
Director of Transportation

A handwritten signature in black ink, appearing to be "M. Takamori".

SUBJECT: Testimony in **SUPPORT** of HB1776 HD1 RELATING TO TAXATION

Dear Chair Luke, Vice Chair Cullen, and members of the committee,

The County of Maui, Department of Transportation (MDOT) **SUPPORTS** HB1776 HD1 which extends the period in which a County may adopt a surcharge on state tax, under certain conditions, from 3/31/2019 to 12/31/2020 for the operating or capital costs of public transportation within Maui County. This will allow Maui County to accept a proposed surcharge on the State's general excise tax for transportation related purposes.

MDOT oversees the Maui Bus Program. These are some of the Maui transportation projects that would benefit our transit riders:

1. Increase Bus Service - Increase in frequency of current services making it more convenient to choose transit, add additional bus routes as demand requires, test micro transit flexible on-demand solutions.
2. Bus Transit Hubs - Kahului Transit Hub on Vevau Street is scheduled for construction in 2020. Per the Maui Short Range Transit Plan, there are other locations that calls for hubs in Central Maui, Kihei, Lahaina and Pa'ia. Build a County owned transit maintenance facility to include electric bus charging infrastructure.
3. Bus Transit Corridors - Kahului-Wailuku TOD Study could provide a template for other parts of Maui; transit corridors provide safe, convenient connections to bus transit; affordable housing and walkable mixed-use development near the stations.

Thank you for providing us the opportunity to provide testimony on this matter.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, USE, Extends Period for Counties to Opt-In on Surcharge

BILL NUMBER: HB 1776, Proposed HD-1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: Extends the period in which a county may adopt a surcharge on state tax, under certain conditions, from 3/31/2019 to 12/31/2020.

SYNOPSIS: Amends section 46-16.8, HRS, to allow a county to adopt a surcharge on the state general excise tax by ordinance prior to 12/31/2020. The surcharge will go into effect on 7/1/2021 if the ordinance is passed before 12/31/2020.

Makes conforming amendments to section 237-8.6 and 238-2.6, HRS, relating to adoption of a surcharge on the General Excise Tax and Use Tax respectively.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This measure concerns the 0.5% surcharge on the general excise tax that was first imposed in the City and County of Honolulu, sometimes known as the “rail surcharge.” As originally enacted in 2006, 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 by Ordinance 16-1. To date, Kauai County has adopted a 0.5% surcharge and Hawaii County has opted for 0.25% but later raised it to 0.5%. Maui County has not adopted the surcharge yet.

How can counties raise money to balance their budgets?

One source of funding that is available to any county is the real property tax. Article VIII, section 3 of the Hawaii Constitution exclusively and directly gives power to the counties to impose real property tax. *State ex rel. Anzai v. City and County of Honolulu*, 99 Hawai‘i 508, 57 P.3d 433 (2002), established that for at least the past twenty years, any county is “free to exercise its exclusive authority to increase, diminish, enact, or repeal any exemptions involving real property taxes without interference by the legislature.” *Id.*, 57 P.3d at 446. The real property tax is imposed by county ordinance, it is imposed on those under the jurisdiction of the county and not of the state, and the money raised belongs to the county imposing it.

Another source of funding is state tax; specifically, state tax that is shared with the counties. Article VIII, section 3 of the Hawaii Constitution provides:

The taxing power shall be reserved to the State, except so much thereof as may be delegated by the legislature to the political subdivisions, and except that all functions, powers and duties relating to the taxation of real property shall be exercised exclusively by the counties, with the

exception of the county of Kalawao. The legislature shall have the power to apportion state revenues among the several political subdivisions.

Where the funds raised are by state statute imposing a state tax, the money raised is the State's money. The Hawaii Constitution, in the language quoted above, explicitly empowers the Legislature to apportion that money to one or more political subdivisions however the Legislature sees fit. Money can be raised for general revenue purposes, as is the case with most taxes including the Transient Accommodations Tax. That money can also be directed to special funds used for specific purposes, as is the case with the fuel tax that feeds the Highway Fund. Sometimes the tax money raised is directed to a multitude of uses, as with the TAT and the Conveyance Tax. It has been held that such funds can be disbursed to one or more counties through grants in aid, and that the State can enact conditions upon the power to disburse or give discretion to the Executive Branch to withhold disbursement. *Fasi v. Burns*, 56 Hawai'i 615, 618-19, 546 P.2d 1122, 1125 (1976).

The county surcharge on the GET, which is the subject of this bill, is imposed by county ordinance and not state law, although state statute delegates the power to tax.

Digested 2/16/2020



MAUI

CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
WEDNESDAY, FEBRUARY 19, 2020 AT 2:00 P.M.**

To The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair; and
Members of the Committee on Finance,

COMMENTS ON HB1776 RELATING TO TAXATION

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our comments on HB1776.

Increases in the General Excise Tax impact everyone, from businesses and residents to being another factor that increases the cost of visitor vacations to Hawaii. At a time when the state is working to reduce the cost of living, this surcharge will only increase costs for residents. As the Legislature is also proposing a staggered, but significant minimum wage increase, businesses could have two serious increases to their expenses in one year. Given these effects, we have to look at the collective impact another increase will have to our members, who are residents and business owners and employees and look at the big picture.

That being said, Maui County is looking to make a strong push for development of affordable housing and rentals and we have many roadways requiring significant repairs. However, this bill does not indicate how the funds can be used. In order for us to consider supporting this bill, we would need to see where the money is being directed and see that it must go towards the top priorities of residents and businesses in Maui County.

We appreciate the opportunity to testify on this matter.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

Michael P. Victorino
Mayor

Sananda K. Baz
Managing Director



OFFICE OF THE MAYOR
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.maui-county.gov

LATE

February 19, 2020

TESTIMONY OF MICHAEL P. VICTORINO
MAYOR
COUNTY OF MAUI

A handwritten signature in black ink that reads "Michael P. Victorino".

BEFORE THE HOUSE COMMITTEE ON FINANCE

Wednesday, February 19, 2020, 2:00PM
Conference Room 308

HB 1776 HD1 RELATING TO TAXATION

Honorable Sylvia Luke, Chair
Honorable Ty J.K. Cullen, Vice Chair
Honorable members of the Committee on Finance

Thank you for this opportunity to **offer comments** on **HB 1776 HD1**.

The purpose of this bill is to extend the period in which a county may adopt a surcharge on state tax, under certain conditions, from 3/31/2019 to 6/30/2021.

I support the intent to extend the period in which a county may adopt a General Excise Tax ("GET") surcharge. However, given the current language in the bill, Maui County would not be authorized to use the funds for operating or capital costs of public transportation systems, including public roadways or highways, public buses, trains, ferries, pedestrian paths or sidewalks, or bicycle paths.

Maui County supports the intent of providing infrastructure for affordable housing. However, there are a wide range of vital projects which could utilize funds from a GET surcharge. Maui County would also like to utilize GET surcharge funds to benefit Maui County's Long-Range Transportation plans for land-transportation improvements, including roadways, bridges and land acquisition, as well as Maui's public bus system. These improvements would improve quality of life for a wide range of residents and visitors.

I ask that you consider allowing flexibility in the use of the funds for operating or capital costs of public transportation along with affordable housing infrastructure.



Date: February 19, 2020
To: Sylvia Luke, Chair
Ty J.K. Cullen, Vice Chair
Honorable Members of the House Committee on Finance
Re: Support for HB1776 HD1 Relating to Taxation
Hrg: February 19, 2020 at 2:00pm in conference room 308

LATE

The Maui MPO Policy Board is in **support of HB1776 HB1** to extend the period in which a county may adopt a surcharge on state tax, under certain conditions, from 3/31/2019 to 6/30/2021.

Maui County is ready to consider a General Excise Tax (GET) surcharge to fund transportation improvements. In April 2019 the Maui County Council adopted Resolution 19-78 “Urging the Hawaii State Legislature to Extend the Deadline to Establish a Surcharge on General Excise Tax.”

In December 2019, the Maui MPO Policy Board adopted the Hele Mai Maui 2040 Long Range Transportation Plan developed from previous plans and public input to create a list of priority projects to help achieve the island’s vision for safety, resilience, and affordability. Hele Mai Maui 2040 demonstrated that there is an \$800 million funding gap over the next 20 years needed for transportation improvements. Many of these projects would be advanced if Maui implements a GET surcharge.

As Maui’s population grows, decision makers are tasked with difficult choices as they work to maintain quality of life for residents. Hele Mai Maui 2040 considered many funding options, and GET surcharge emerged as one of the most viable sources identified by State and County partners involved with the MPO. It is estimated that 30-40% of GET surcharge would be borne by visitors.

Please support HB1776 HD1 to provide Maui County the opportunity to generate funds for needed transportation improvements.