

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR  
  
ROBERT YU  
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)

TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON TRANSPORTATION  
ON  
HOUSE BILL NO. 1990, H.D. 1

**February 7, 2020**  
**10:00 a.m.**  
**Room 423**

RELATING TO TAXATION

The Department of Budget and Finance (B&F) opposes House Bill (H.B.) No. 1990, H.D. 1.

H.B. No. 1990, H.D. 1, permanently directs specified percentages of general excise tax (GET) revenues to: 1) the Department of Education (DOE) and other entities responsible for school facilities to augment their capacity and infrastructure; and 2) the Department of Transportation (DOT) to protect the State highway system from the threat of inundation and damage caused by climate change. The 0.25 per cent of GET revenue would be earmarked for both DOE and DOT and deposited into a newly established Educational Infrastructure Special Fund (EISF) for DOE and the State highway fund, respectively.

This bill also proposes a temporary State improvement surcharge on the GET and use tax, which would be allocated to several funds, including the State highway fund and the EISF.

We have significant concerns regarding earmarking general fund tax revenues for a specific department or purpose. While these designated funds must be appropriated by the Legislature, they will not be available for other priority programs that are funded by the general fund.

The use of State tax revenues should be subject to the review of the Executive Branch and the Legislature based on the State's current priorities and financial situation. This is especially critical during periods of economic downturn or disaster. Earmarking funds during a recession, for example, would provide DOE and DOT funding while potentially causing other departments to be subject to greater reductions. DOT also has special funds that support its operations while many other departments do not.

Further, it appears that the funds could be used for capital improvement purposes. As such, bond financing could be considered for such projects.

Based on the above, B&F opposes this measure.

Thank you for your consideration of our comments.



**LATE**

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 02/07/2020

**Time:** 10:00 AM

**Location:** 423

**Committee:** House Transportation

**Department:** Education

**Person Testifying:** Dr. Christina M. Kishimoto, Superintendent of Education

**Title of Bill:** HB 1990, HD1 RELATING TO TAXATION.

**Purpose of Bill:** Permanently directs specified percentages of the general excise tax revenues to a new educational infrastructure special fund for the department of education and other entities responsible for school facilities to augment its capacity and infrastructure and to the department of transportation to protect the state highway system from the threat of inundation and damage caused by climate change. Directs specified percentages of revenues from a new, temporary state improvement surcharge to the foregoing purposes and to certain state funds. Takes effect on 7/1/2050. (HD1)

**Department's Position:**

The Department of Education (Department) supports HB 1990, HD1.

As educational systems advance through new technologies and research, there is an opportunity and obligation for school facilities to evolve and adapt to these changing conditions. These advances will provide a strong foundation and environment for our students to achieve educational excellence and adequately prepare them for their future.

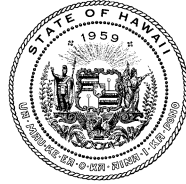
Providing a dedicated revenue source to supplement the current ongoing state support of school facilities, would strengthen facility management and planning toward 21st Century learning. This would enable the Department to continue to improve learning environments across the State to meet the needs of a modern, 21st Century school design that accommodates our students' educational needs.

The Department appreciates the legislature's commitment to providing the necessary resources for our students to succeed. Thank you for the opportunity to provide testimony on this measure.

The Hawai'i State Department of Education is committed to delivering on our promises to

students, providing an equitable, excellent, and innovative learning environment in every school to engage and elevate our communities. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at [www.hawaiipublicschools.org](http://www.hawaiipublicschools.org).

**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 Henry J.C. Aquino, Chair;  
The Honorable Troy N. Hashimoto, Vice Chair;  
and Members of the House Committee on Transportation

From: Rona M. Suzuki, Director  
Department of Taxation

Re: **H.B. 1990, H.D. 1, Relating to Taxation**

Date: Friday, February 7, 2020

Time: 10:00 A.M.

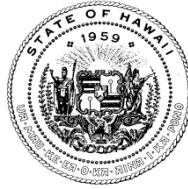
Place: Conference Room 423, State Capitol

The Department of Taxation (Department) offers the following comments on H.B. 1990, H.D. 1.

H.B. 1990, H.D. 1, adds new sections to chapters 237 and 238, Hawaii Revised Statutes (HRS), establishing a state improvement surcharge on the general excise tax (GET) and use tax at the rate of one-half percent of all gross proceeds and gross income taxable under chapters 237 and 238, HRS, from January 1, 2031 to December 31, 2035. In addition, the measure allocates 0.25% of all GET revenues to Department of Education and 0.25% of all GET revenues to the state highway fund. H.D. 1 has a defective effective date of July 1, 2050.

The Department can administer the measure as soon as July 1, 2020.

Thank you for the opportunity to provide comments.



**TESTIMONY BY:**

JADE T. BUTAY  
DIRECTOR

Deputy Directors  
LYNN A.S. ARAKI-REGAN  
DEREK J. CHOW  
ROSS M. HIGASHI  
EDWIN H. SNIFFEN



**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION**  
869 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813-5097

February 7, 2020  
10:00 A.M.  
State Capitol, Room 423

**H.B. 1990, H.D. 1**  
**RELATING TO TAXATION**

House Committee on Transportation

---

The Department of Transportation (DOT) **supports** this bill that directs specified percentages of the general excise tax revenues to protect the state highway system from the threat of inundation and damage caused by climate change; directs specified percentages of revenues from a new, temporary state improvement surcharge.

The DOT understands that Sustainable Transportation must consider more than just decreased consumption of fossil fuels in ground transportation. The state will have to contend with the impacts of climate change on our coastal roads. The Hawaii Climate Change and Adaptation Commission forecasts 3.2 feet/1 m sea level rise by 2100. Using these forecasts, 10-15% of the state's highway system would be affected.

These committed general excise tax revenues would help the DOT work towards efforts including creating policies for adaptation, protection or managed retreat that take communities and funding into account; contract and work with experts to prioritize sites and design mitigation measures; work with stakeholders on land use, access, and other considerations, as future decisions for roads require more than DOT, these decisions require aligning with communities, other State, County, and Federal agencies

Thank you for the opportunity to provide testimony.



## **HOUSE BILL 1990, HD 1, RELATING TO TAXATION**

FEBRUARY 7, 2020 · HOUSE TRANSPORTATION  
COMMITTEE · CHAIR REP. HENRY J.C. AQUINO

**POSITION:** Support.

**RATIONALE:** The Democratic Party of Hawai'i Education Caucus supports HB 1990, HD 1, relating to taxation, which permanently directs specified percentages of the general excise tax revenues to a new educational infrastructure special fund for the department of education and other entities responsible for school facilities to augment its capacity and infrastructure and to the department of transportation to protect the state highway system from the threat of inundation and damage caused by climate change.

Our state's public schools are over 60 years old on average and the department's repair and maintenance backlog currently stands at \$860 million. Providing students and teachers with a quality and safe learning environment is essential to increasing student achievement. Decaying classrooms are not conducive to providing an education that matches the needs of the 21<sup>st</sup> Century job market or civic society, especially when they are not only under-resourced, but drifting steadily toward uninhabitability.

Moreover, according to a report produced by the Hawai'i Climate Change Mitigation and Adaptation Commission, global sea levels could rise more than three feet by 2100, with more

recent projections showing this occurring as early as 2060. Over the next 30 to 70 years, in turn, approximately 6,500 structures and 19,800 people statewide will be exposed to chronic flooding.

Additionally, an estimated \$19 billion in economic loss would result from chronic flooding of land and structures located in exposure areas. Finally, approximately 38 miles of coastal roads and 550 cultural sites would be chronically flooded, on top of the 13 miles of beaches that have already been lost on Kaua'i, O'ahu, and Maui to erosion fronting shoreline armoring, like seawalls.

Therefore, we support establishing a surcharge to fund educational facilities improvements and strengthen our state's transportation infrastructure in advance of the worst effects of climate change. **This measure is clearly intended to replace the surcharge currently afforded to the Honolulu Rapid Transit System and would have the additional benefit of assuring the public that, at some point, the state will not continue to subsidize the rail system at the expense of other priorities.**

At this point, residents of Hawai'i have grown accustomed to paying a half-percent surcharge on the general excise tax, which has become baked into our cost of living and working families' budgetary decisions. Continuing the surcharge will not adversely impact our islands' economy. Instead, it will ensure that our keiki are given opportunities to reach their full potential in a state whose highway system is safe from global warming, a cause that's much more in line with the common good than the sustenance of a perpetually overbudget and mismanaged transit system.



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE; State Improvement Surcharge

BILL NUMBER: HB 1990, HD-1

INTRODUCED BY: House Committee on Lower & Higher Education

EXECUTIVE SUMMARY: Permanently directs specified percentages of the general excise tax revenues to a new educational infrastructure special fund for the department of education and other entities responsible for school facilities to augment its capacity and infrastructure and to the department of transportation to protect the state highway system from the threat of inundation and damage caused by climate change. Directs specified percentages of revenues from a new, temporary state improvement surcharge to the foregoing purposes and to certain state funds. Takes effect on 7/1/2050.

SYNOPSIS: Adds new sections to chapters 237 and 238 to establish a state improvement surcharge on the general excise tax from 2031 to 2035. The surcharge will be 0.5% of all gross income or value respectively.

Provides that the surcharge does not apply to contracts entered into before June 30 of the year prior to the year in which the taxes become effective, if the contracts do not provide for the passing on of increased rates of taxes.

Provides that the surcharge does not apply to gross income or value subject to GET or use tax at the 0.5% rate, at the 0.15% rate, or exempt.

Taxpayers who file on a fiscal year basis will need to hard close their taxable year at December 31 and file short period returns for the partial years thus created.

Adds a new section to chapter 302A establishing the educational infrastructure special fund.

Amends section 237-31, HRS, to provide that 0.25% of GET revenues will be redirected to the educational infrastructure special fund and 0.25% of GET revenues will be redirected to the state highway fund (section 248-8, HRS). These redirections will be permanent.

Amends section 237-31 and 238-14, HRS, to provide that the state improvement surcharge shall be distributed 20% each to the five following funds:

1. The compound interest bond reserve fund.
2. The hurricane reserve trust fund.
3. The other post-employment benefits trust fund.
4. The educational infrastructure special fund.
5. The highway fund.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: A tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

The proposed measure would also perpetuate the earmarking of tax revenues. Yes, our highways and bridges need work, and the fuel tax that now feeds the highway fund has proven to be less stable as more and more consumers start using alternative fuel vehicles, electric vehicles, and hybrids. Our educational facilities are in disrepair and need work. But does that justify burdening all of us with a GET tax hike and without going through the normal appropriation and budgeting process that also considers invasive species, unique health risks like the Wuhan coronavirus, and the unique costs of intercollegiate athletics?

Earmarking revenues from any tax type for a particular purpose decreases transparency and accountability.

Next, it should be remembered that revenues diverted for a special purpose, in this case to fund highways and bridges, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.