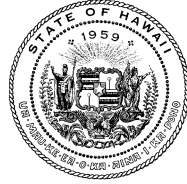


DAVID Y. IGE
GOVERNOR
JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION
DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Glenn Wakai, Chair;
The Honorable Brian T. Taniguchi, Vice Chair;
and Members of the Senate Committee on Energy, Economic Development, and
Tourism

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2054, Relating to Infrastructure Improvement Districts**

Date: Monday, February 3, 2020

Time: 2:55 P.M.

Place: Conference Room 414, State Capitol

The Department of Taxation (Department) offers the following comments on S.B. 2054.

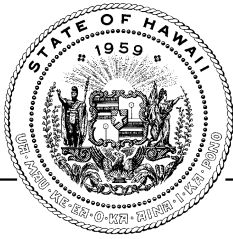
S.B. 2054 establishes a surcharge on real property tax on transit-oriented development properties that are sold or developed after the effective date of the measure at the rate of \$7.50 per \$1,000 of net taxable value. The measure requires the Department to administer and enforce the section, except:

1. The examinations of books and records of any person or private entity subject to the surcharge on property tax; and
2. The imposition of penalties upon failure or refusal by a person or private entity to file a return, sworn, or proper return.

It also allows the Department to contract with another state or county department or agency for the purposes of implementation or enforcement and adopt rules pursuant to Chapter 91. The bill is effective upon the ratification of the constitutional amendment proposed in an unspecified Senate Bill, permitting the legislature to establish a surcharge as proposed by this measure.

The distribution of responsibilities between agencies in this measure make payment of the surcharge and the requirement of any return the responsibility of the counties. The Department believes that the accompanying administration and enforcement of these requirements should remain with the counties.

Thank you for the opportunity to provide comments.



OFFICE OF PLANNING STATE OF HAWAII

DAVID Y. IGE
GOVERNOR

MARY ALICE EVANS
DIRECTOR
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Statement of
MARY ALICE EVANS
Director, Office of Planning
before the
SENATE COMMITTEE ON ENERGY, ECONOMIC DEVELOPMENT AND TOURISM
Monday, February 3, 2020
2:55 PM
State Capitol, Conference Room 414

in consideration of
SB 2054
RELATING TO INFRASTRUCTURE IMPROVEMENTS DISTRICTS.

Chair Wakai, Vice Chair Taniguchi, and Members of the Senate Committee on Energy, Economic Development and Tourism.

The Office of Planning (OP) offers **comments** on SB 2054, which proposes to establish an annual surcharge on property taxes within an infrastructure improvement district, upon ratification of a State constitutional amendment to allow the State to establish a surcharge on real property to fund infrastructure improvements around rapid transit stations.

OP supports the underlying intent of this measure to find alternative means to finance the significant infrastructure improvements that will be needed to support the creation of mixed use, dense, transit-oriented urban communities on State lands along the Honolulu rail corridor.

A major concern with the bill, however, is its applicability only to parcels that change ownership. It should instead be applied to parcels that experience an increase in improvement value. If a landowner does not sell the land but still develops it to take advantage of proximity to transit, then no surcharge would be assessed even though the development could have a significant impact on infrastructure.

Thank you for this opportunity to testify.

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
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February 2, 2020

TO: The Honorable Glenn Wakai, Chair
Senate Committee on Energy, Economic Development, and Tourism

FROM: Alice L. Lee
Council Chair

SUBJECT: **HEARING OF FEBRUARY 3, 2020; TESTIMONY IN OPPOSITION TO SB 2054, RELATING TO INFRASTRUCTURE IMPROVEMENT DISTRICTS**

Thank you for the opportunity to testify in **opposition** to this important measure. The purpose of this measure is implement a constitutional amendment to allow the legislature to establish a surcharge on taxation of certain property within an infrastructure improvement district.

The Maui County Council has not had the opportunity to take a formal position on this measure. Therefore, I am providing this testimony in my capacity as an individual member of the Maui County Council.

I oppose this measure for the following reasons:

1. The counties have the exclusive authority to tax real property and any exceptions sets an unwelcome precedent to future intrusions by the State into the counties' primary source of revenue.
2. The State has several other taxation mechanisms. The State should utilize the taxation tools already in place.

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

ocs:proj:legis:20legis:20testimony:sb2_paf20-059a_alkl

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: REAL PROPERTY; Infrastructure Improvement District Surcharge

BILL NUMBER: SB 2054

INTRODUCED BY: DELA CRUZ, KEITH-AGARAN, Kidani, Shimabukuro

EXECUTIVE SUMMARY: Establishes a \$7.50 per \$1000 value in annual surcharge on property taxes on parcels within an infrastructure improvement district that are sold or developed after an appropriation is made to improve the infrastructure of that district. Authorizes the counties to retain a portion of the surcharge for administrative expenses.

SYNOPSIS: Adds a new part to chapter 206E, HRS, to be titled "Infrastructure Improvement Districts."

Defines an "infrastructure improvement district" as land within 2,000 feet of a transit station.

Defines "transit-oriented development property" as a parcel completely or partially within two thousand feet of a transit station; provided that the entire parcel shall be within one mile of the transit station.

Imposes the surcharge on transit-oriented development property. Provides that any transit-oriented development property that does not change ownership shall not be subject to surcharge.

Establishes the amount of surcharge at \$7.50 per \$1,000 of net taxable value. Directs each county to by ordinance permit an owner to pay the surcharge in the same manner provided for real property tax. Allows the county to require the owner to file a return declaring the value of a property whenever the county does not have sufficient evidence to come up with a sound appraisal of the property.

Adds other usual and customary administrative provisions. Provides for appeals. Provides that the counties may keep \$1.50 per \$1,000 and remit the balance to the general fund.

Provides exemptions for property that is:

- (1) Not subject to real property taxation;
- (2) Leased, purchased, or otherwise obtained by a lessee, tenant, purchaser, or homesteader under the Hawaiian Homes Commission Act of 1920, or as amended, a lease of land made for a term of nine hundred ninety-nine years under provisions of law that were repealed by section 3 of Joint Resolution 12, Session Laws of 1949, ratified by the Congress of the United States by the Act of September 1, 1950;
- (3) Used exclusively for charitable, including property used for church purposes and cemeteries that are maintained by a religious organization;

- (4) Used for school purposes;
- (5) Owned by a nonprofit corporation to which admission is restricted by corporate charter to members of a labor union or government employees' association, one of the primary purposes of which is to improve employment conditions of its members;
- (6) Dedicated to public use by the owner, which dedication has been accepted by the State or any county, reduced to writing, and recorded in the bureau of conveyances;
- (7) Set aside for public use; provided that any exemption pursuant to this paragraph shall not be for a period of less than ten years after enactment of Act , Session Laws Hawaii 2020; and
- (8) Owned by any entity granted a transient accommodations tax exemption under section 237D-3.

EFFECTIVE DATE: Upon ratification of the constitutional amendment proposed in S.B. No. 2074.

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.

As a technical matter, the list of proposed exemptions needs to be rethought. Exemption (1) should include property subject to minimum tax. Exemption (8), referring to lodging exempt from the TAT under HRS section 237D-3, needs to be amended to recognize that entities do not get exemption certificates under the TAT law the same way that nonprofits, for example, can get such certificates under section 237-23, HRS. Partial exemptions also need to be dealt with, for example a charitable nonprofit leasing one of several office suites in a building.

Digested 1/30/2020

February 3, 2020

The Honorable Glenn Wakai, Chair

Senate Committee on Energy, Economic Development and Tourism
State Capitol, Room 414
Honolulu, HI 96813

RE: S.B. 2054, Relating to Infrastructure Improvement Districts

HEARING: Monday, February 3, 2020, at 2:55 p.m.

Aloha Chair Wakai, Vice Chair Taniguchi and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawai'i Association of REALTORS® (“HAR”), the voice of real estate in Hawai'i, and its over 10,000 members. HAR **strongly opposes** S.B. 2054 which establishes an annual surcharge on property taxes on parcels within an infrastructure improvement district that are sold or developed after an appropriation is made to improve the infrastructure of that district. Authorizes the counties to retain a portion of the surcharge for administrative expenses. The property tax would not take effect until a property changes ownership.

According to the Asset Limited, Income Constrained, Employed (ALICE) Report prepared by United Way many households earning more than the federal poverty level still cannot afford housing, child care, food, transportation and health care. At a time when the Legislature has prioritized addressing the high cost of living, this measure will have the effect of a double property tax on future homeowners within an infrastructure improvement district.

Under this measure, the amount of the surcharge is \$7.50 per \$1,000 of net taxable value. If a property is assessed at \$400,000, the property tax surcharge would equal \$3,000. This would be in addition to the county property tax rate. This added tax would impact first-time homebuyers, and continue to put the dream of homeownership further out of reach of Hawaii families and residents.

Mahalo for the opportunity to testify.