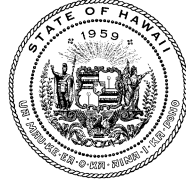


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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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. 1990, H.D. 2, Relating to Taxation**

Date: Friday, February 21, 2020

Time: 11:00 A.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) offers the following comments on H.B. 1990, H.D. 2.

H.B. 1990, H.D. 2, 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. 2 has a defective effective date of July 1, 2050.

The Department is able to administer the measure as currently written, provided that a functional effective date is inserted.

Thank you for the opportunity to provide comments.



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

Date: 02/21/2020
Time: 11:00 AM
Location: 308
Committee: House Finance

Department: Education

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

Title of Bill: HB 1990, HD2 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 and to augment the capacity and infrastructure of the State's highways. 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. (HD2)

Department's Position:

The Department of Education (Department) supports HB 1990, HD 2.

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 has several schools across the state that will be directly impacted by sea level rise and the associated ground water effectives. Providing a dedicated revenue source, to supplement the State's support of school facilities, would allow the Department to begin developing solutions to address this potential.

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.

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 FINANCE
ON
HOUSE BILL NO. 1990, H.D. 2

February 21, 2020
11:00 a.m.
Room 308

RELATING TO TAXATION

The Department of Budget and Finance (B&F) opposes House Bill (H.B.) No. 1990, H.D. 2.

H.B. No. 1990, H.D. 2, 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 augment the capacity and infrastructure of the State highway system and to protect it 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.

Thank you for your consideration of our comments.

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-2

INTRODUCED BY: House Committee on Transportation

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 of the year before the surcharge becomes effective, 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.

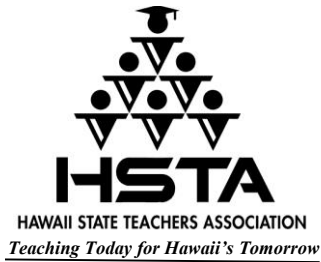
STAFF COMMENTS: A tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This 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.

Digested: 2/19/2020



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Corey Rosenlee
President
Osa Tui Jr.
Vice President
Logan Okita
Secretary-Treasurer
Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE

RE: HB 1990, HD2 - RELATING TO TAXATION

FRIDAY, FEBRUARY 21, 2020

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke and Members of the Committee:

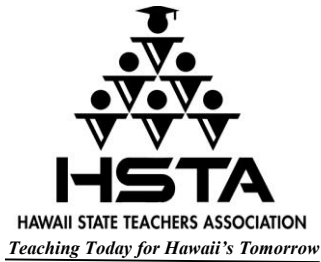
The Hawaii State Teachers Association **supports HB 1990, with amendments**, relating to taxation.

This bill would permanently redirect specified percentages of the general excise tax revenues to the Department of Education to augment its capacity and infrastructure and to the Department of Transportation to protect the state highway system from threat of inundation and damage caused by climate change.

We support these funds going to the Department of Education to augment its capacity and infrastructure as their master plan is the culmination of a years-long contract Jacobs to complete a statewide facilities assessment, evaluate how the needs match up with education standards and determine the best process to address those needs. The estimated total price tag for “top priority” projects, such as additional classroom space to account for overcrowding or basic repair and maintenance to make schools safer, is \$7 billion, according to the 309-page report. That figure rises to \$11 billion when accounting for all levels of priorities. Thus, the HODOE will absolutely need this funding to complete their infrastructure plan.

HSTA suggests amending this bill to add that these funds should also go toward the expansion of public preschool as well.

As noted by an MIT working group on the topic, investments in early childhood education pay dividends for the formal preparation of children as learners and future citizens, while also benefiting taxpayers and boosting economic vitality. Research on the benefits of quality pre-kindergarten programs indicates that for every dollar invested in such opportunities, society saves four to eight dollars on remedial classes, special education, welfare programs, and criminal



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justice costs. Roughly 85 percent of a child's brain develops from birth to age five, according to modern neuroscience, emphasizing the importance of providing a quality learning environment during these formative years. Preschool brings an approximately \$4.20 return on investment for every dollar spent on quality early childhood services, especially in terms of long-term life skills. At the national level, every dollar spent on early childhood education saves taxpayers up to \$13.00 in future costs, including lowered healthcare costs, reduced rates of educational remediation and prison incarceration, and higher productivity.

Access to quality pre-kindergarten programs not only helps working parents fulfill their responsibilities, but is essential for building a 21st century labor force. Early childhood education is especially important for at-risk students. According to the High Scopes/Perry Preschool longitudinal study, at-risk children with access to quality early learning programs were 20 percent more likely to graduate from high school, 14 percent more likely to be employed, and 24 percent less likely to have been incarcerated by age 40 than peers without such access.

Expanding public preschool and utilizing public school resources for the provision of early learning will not only be more cost-effective, but it will place our children's futures in the hands of the state's most qualified education professionals, namely our certificated and licensed public-school teachers with additional expertise in early childhood education.

This bill should provide Hawaii's public education system more dedicated funding to provide additional funding for our public schools that will help alleviate the deferred maintenance on facilities across the system and to prepare for climate change repercussions, but it should also provide more funding for the expansion of our public preschools.

Accordingly, **we urge you to amend this bill by specifying that these funds should also be appropriated to support the expansion of our public preschools.**

To deliver the schools our keiki deserve, the Hawaii State Teachers Association asks your committee to **support** this bill.



HOUSE BILL 1990, HD 2, RELATING TO TAXATION

FEBRUARY 21, 2020 · HOUSE FINANCE
COMMITTEE · CHAIR REP. SYLVIA LUKE

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus supports HB 1990, HD 2, 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 and to augment the capacity and infrastructure of the State's highways.

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 21st Century job market or civic society, especially when they are not only under-resourced, but drifting steadily toward uninhabitability.

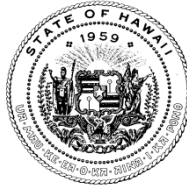
Moreover, according to a report produced by the Hawai'i Climate Change Mitigation and Adaptation Commission, global sea levels could rise more than three feet by 2100, with more

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.



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 21, 2020
11:00 A.M.
State Capitol, Room 308

H.B. 1990, H.D. 2
RELATING TO TAXATION

House Committee on Finance

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, and 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.

LATE

February 20, 2020

Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Members of the House Committee on Finance

RE: **HB 1990, HD2 – RELATING TO TAXATION**
Hearing date – February 21, 2020 at 11:00 a.m.

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

Thank you for allowing NAIOP Hawaii to submit testimony in **OPPOSITION** to HB 1990, HD2 – RELATING TO TAXATION. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

HB 1990, HD2 would reallocate a portion of the general excise tax revenues to a special fund to provide additional money to the department of education for school facilities and to the department of transportation to protect the state highway system from the threat of inundation and damage caused by climate change.

NAIOP Hawaii supports the intent of the bill to provide additional funding to support public schools. However, dedicating tax revenues to the department of education without a corresponding reduction in their general fund appropriation, would reduce the funds for other much needed programs, such as affordable housing. There is no indication that the additional funds collected will improve education or the facilities, especially since there would be little oversight from the executive branch and the department of education already has a significant budget. Instead, there should be a comprehensive audit to determine whether the money currently allocated is sufficient to provide for public education or whether the current budget could be used more efficiently.

Accordingly, we urge you to defer HB 1990, HD2.

Mahalo for your consideration,

Cathy Camp, President
NAIOP Hawaii