

Honolulu, Hawaii

**MAR 03 2017**

RE: S.B. No. 1183  
S.D. 2

Honorable Ronald D. Kouchi  
President of the Senate  
Twenty-Ninth State Legislature  
Regular Session of 2017  
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 1183, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to make various amendments to the county surcharge on state tax, income tax law, and general excise and use taxes.

More specifically, this measure contains several parts that do the following:

(1) Part I:

- (A) Authorizes counties that have established a surcharge on state tax prior to July 1, 2015, to extend the surcharge in perpetuity;
- (B) Authorizes counties that have not established a surcharge by July 1, 2017, to establish a surcharge on state tax;
- (C) Provides that the State shall retain an unspecified portion of surcharge proceeds for the Department of Taxation; and



(D) Requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis;

(2) Part II:

(A) Establishes an income tax credit that reduces the tax liability for low-income taxpayers;

(B) Authorizes all counties to establish a 0.5 per cent surcharge on state tax prior to July 1, 2018;

(C) Eliminates the automatic expiration date for adopted county surcharges on state tax;

(D) Provides that the State shall retain an unspecified portion of surcharge proceeds for deposit into the state highway fund;

(E) Requires a county's share of the county surcharge on state tax to be paid to the county on a monthly basis; and

(F) Specifies how the county surcharges collected shall be allocated among the counties that have adopted the surcharge;

(3) Part III:

(A) Authorizes counties that have established a surcharge on state tax prior to July 1, 2015, to extend the surcharge to December 31, 2032; provided that the Hawaii Community Development Authority transfers specified parcels to the City and County of Honolulu and the City and County of Honolulu meets other requirements by December 31, 2027;

(B) Repeals parts I and III of the measure on January 1, 2028, if the requirements are not met;

(C) Authorizes counties that have not established a surcharge on state tax by July 1, 2017, to establish a surcharge; and



- (D) Provides that an unspecified percentage of the surcharge shall be used by the Department of Transportation for transit oriented development and infrastructure improvement; and
- (4) Part IV:
- (A) Increases the general excise and use taxes from four per cent to four and one-half per cent;
- (B) Specifies that for an unspecified time period, beginning on January 1, 2019, an unspecified amount of the additional revenues shall be transferred to any county that adopted a surcharge on state tax; provided that such county matches half of the transferred funds;
- (C) Limits the expenditures allowed by a county receiving additional tax revenue to capital costs for a mass transit project and compliance with the Americans with Disabilities Act;
- (D) Requires any county who receives additional tax revenue to report to the Legislature annually on revenues and expenditures;
- (E) Specifies that an unspecified amount of the additional revenues shall be used by the State for education, the Department of Transportation, affordable housing, and elderly programs and services; and
- (F) Repeals the county surcharge on state tax on January 1, 2019.

Your Committee received testimony in support of this measure from the Department of Transportation, a member of the Kauai County Council, The Chamber of Commerce Hawaii, General Contractors Association of Hawaii, Hawaii Laborers-Employers Cooperation and Education Trust, Hawaii Regional Council of Carpenters, Hawaii State AFL-CIO, ILWU Local 142, Kapolei Chamber



of Commerce, Land Use Research Foundation of Hawaii, Pacific Resource Partnership, and three individuals.

Your Committee received testimony in opposition to this measure from Financial Accountability for Rail Mass Transit Association, Friends of Makakilo, Ho'omana Pono, LLC, House District 41 of the Hawaii Republican Party, Kanehili Cultural Hui, and twenty-five individuals.

Your Committee received comments on this measure from the Department of Budget and Finance, Department of Taxation, Honolulu Authority for Rapid Transportation, Tax Foundation of Hawaii, and one individual.

For purposes of a public hearing, your Committee circulated a proposed S.D. 2 (Proposed Draft) of the measure and notified the public that your Committee would be accepting testimony on the Proposed Draft, which amends the measure by replacing its contents with provisions to amend the county surcharge on state tax and address the funding of the City and County of Honolulu's rail transportation project.

More specifically, the Proposed Draft:

- (1) Repeals the requirement that ten per cent of revenues from the county surcharge on state tax be withheld to reimburse the State for administrative costs; provided that an ordinance that allows the capital costs of the rail transportation project to be paid from county funds is adopted prior to December 31, 2017; and
- (2) Requires the Mayor of the City and County of Honolulu to submit certain plans and reports to the Legislature with respect to the funding of the rail transportation project.

Your Committee received testimony in support of the Proposed Draft from The Chamber of Commerce Hawaii, Financial Accountability for Rail Mass Transit Association, General Contractors Association of Hawaii, Hawaii Regional Council of Carpenters, and two individuals.



Your Committee received testimony in opposition to the Proposed Draft from the Kanehili Cultural Hui, Land Use Research Foundation of Hawaii, and four individuals.

Your Committee received comments on the Proposed Draft from the Department of Budget and Finance, Department of Transportation, the Mayor of the City and County of Honolulu, Honolulu City Council, Honolulu Authority for Rapid Transportation, and one individual.

Your Committee finds that only the City and County of Honolulu has established the county surcharge on state tax as authorized by section 46-16.8, Hawaii Revised Statutes, to fund a rail transportation project. Your Committee also finds that repealing the requirement that ten per cent of the surcharge revenues be withheld to reimburse the State for administrative costs incurred for the assessment, collection, and disposition of the county surcharge would provide more surcharge revenues to fund the construction costs of the rail transportation project. Your Committee further finds that, if the City and County of Honolulu is charged with controlling the construction cost of the rail transportation project, the additional surcharge revenues will be sufficient to cover project costs.

Your Committee has amended this measure by adopting the Proposed Draft.

In passing the Proposed Draft, it is not the intent of your Committee for the City and County of Honolulu to increase real property tax rates as a means of financing construction. As was discussed, and it is still our belief, given increased valuations or by tapping into the range of county funds available that existing resources could be bonded, public-private partnerships should be aggressively explored, or the active use of existing statutory tools under chapter 46, Hawaii Revised Statutes, should be vetted to ensure all financing options to complete the project without further taxing the taxpayer have been explored.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1183, S.D. 1, as amended herein, and recommends that it pass



Third Reading in the form attached hereto as S.B. No. 1183,  
S.D. 2.

Respectfully submitted on  
behalf of the members of the  
Committee on Ways and Means,




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JILL N. TOKUDA, Chair



The Senate  
Twenty-Ninth Legislature  
State of Hawai'i

**Record of Votes**  
**Committee on Ways and Means**  
**WAM**

Bill / Resolution No.:*	Committee Referral:	Date:		
SB 1183, SD1	TRE/PSM, WAM	27 Feb 2017		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
TOKUDA, Jill N. (C)	/			
DELA CRUZ, Donovan M. (VC)				/
ENGLISH, J. Kalani	/			
GALUTERIA, Brickwood	/			
HARIMOTO, Breene	/			
INOUYE, Lorraine R.				/
KAHELE, Kaiali'i	/			
RIVIERE, Gil		/		
SHIMABUKURO, Maile S.L.	/			/
TANIGUCHI, Brian T.		/		
WAKAI, Glenn				/
<b>TOTAL</b>	6	2		3
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution:				
Original	Yellow	Pink	Goldenrod	
File with Committee Report	Clerk's Office	Drafting Agency	Committee File Copy	

\*Only one measure per Record of Votes