Hawai'i State Association of Counties (HSAC)

Counties of Kaua'i, Maui, Hawai'i and City & County of Honolulu

MINUTES

HSAC EXECUTIVE COMMITTEE MEETING
Thursday, August 10, 2017
Honolulu Hale, Committee Meeting Room
530 South King Street
Honolulu, Hawaii 96813

I. CALL TO ORDER

The HSAC Executive Committee was called to order by HSAC President Dru Kanuha at 10:10 a.m. The following members comprising a quorum were present:

County of Hawaii:	President Dru Kanuha Councilmember, Hawaii County Council
County of Kauai:	Vice President Derek Kawakami Councilmember, Kauai County Council
County of Maui:	Secretary Stacy Crivello Presiding Officer Pro Tempore, Maui County Council
City and County of Honolulu:	Treasurer Ikaika Anderson Councilmember, Honolulu City Council
Others Present:	Council Chair Mike White, Maui County Council Councilmember Riki Hokama, Maui County Council Leinani Wessel, Council Aide to Councilmember Dru Kanuha, Hawaii County Council Aida Kawamura, Legislative Assistant, Office of Council Services, Kauai County Council Brandon Mitsuda, Administrative Support Services, Honolulu City Council Francisco Figueiredo, Office of Councilmember Ikaika Anderson, Honolulu City Council Kamakana Watanabe, Legislative Analyst, Office of Council Services, Honolulu City Council Carla Nakata, Legislative Attorney, Office of Council Services, Maui County Council Scott Ishikawa, Senior Account Executive, Becker Communications, Inc.

II. APPROVAL OF AGENDA

There being no objections, the agenda was approved as circulated.

III. REPORTS

A. Treasurer's Report

1. Treasurer's Report for June 2017.

Treasurer Anderson reported that HSAC started the month of June with a balance of $164,607,06 and had expenses of $7,796, leaving an ending balance of $156,813.69. (The worksheet was provided at the July meeting.)

Secretary Crivello moved to approve the Treasurer's Report for June 2017. The motion was seconded by Treasurer Anderson and unanimously carried.

B. County Reports.

1. City and County of Honolulu Report. Treasurer Anderson reported that at the Council meeting of August 9, the Honolulu City Council passed on second reading a bill relating to accessible curb ramps and a bill relating to special transit service. The Council passed on third reading a bill to establish a process for periodic review of certain city boards and commissions to determine whether the Charter provisions or ordinances establishing the board or commission should be retained, amended, or repealed. Also on third reading, the Council passed a bill to expand the commercial area subject to the City's prohibitions on sitting and lying on sidewalks in certain areas. The Council also passed a bill on first reading which allows the administration to set time limits on parking. They passed a bill relating to fire safety to require existing high-rise buildings to retrofit when determined necessary by the Honolulu Fire Department Chief to comply with certain safety standards. The bill was introduced in response to the catastrophic fire at the Marco Polo last month. The Mayor attended yesterday's Council meeting to request the bill relating to fire safety be moved forward. The Council also passed on first reading a bill relating to smoking to expand current ordinances to prohibit the use of electronic smoking devices as well as smoking in vehicles when a minor is present. The Council also passed a bill to urge the City administration to remove traffic bulb-outs from Chinatown. The Council also referred a resolution to the Committee on Executive Matters and Legal Affairs for discussion at the Committee's next meeting on August 22, asking the HSAC Executive Committee to support the City's position that a general excise surcharge remains the best and most

equitable option to fund Honolulu's rail system. He also noted the Council appreciates the support of the Maui County Council in moving a resolution forward supporting the GET extension.

2. County of Hawaii Report. President Kanuha said there is not too much to report since the last HSAC meeting. The Council supported a resolution to look into furthering a shooting range on Hawaii Island. As a rural community, there is support for not only hunting efforts, but places where police and federal agencies can train for the use of guns. Also, the County has been trying to enforce laws at parks and when they can be used. He said there has been an influx of homeless, mainly on the Kona side, which has proven troublesome for the community. They have been doing clean-ups to make sure parks can be used by all individuals. He said there are 75 or more people who have been removed from the parks. Nonprofits have been helping. The County will do full-time security in parks.

3. County of Kauai Report. Vice President Kawakami said yesterday Kauai got an update from their Washington DC consultant, Smith Dawson & Andrews. Kauai was successful in obtaining a big Transportation Investment Generating Economic Recovery (TIGER) grant that the County will be using to revitalize the Rice Street area, its urban area. The County is focusing on multimodal transportation at Rice Street. Kauai County is focused on rebuilding relationships in DC. He said the new way to approach appropriations and funding has been through grants, which is different from earmarks. They discussed some of the Mayor's priorities in DC, which include saving their post office, which is critical to the revitalization of the Rice Street area. Another issue is the potential FAA prioritization. They touched upon current Community Development Block Grant (CDBG) funding. Just to maintain what Kauai has in funding is considered a victory. They discussed the President's proposed budget cuts and how they might impact Kauai. They discussed how the Council could become more active in getting priorities heard in DC. He said the Administration is open to having voices heard.

4. County of Maui Report. Secretary Crivello reported the Council passed Resolution 17-125 to request the support of HSAC and its Executive Committee for the State Legislature's approval of an extension of the Honolulu general excise and use tax surcharge as necessary to enable the completion of a minimum operable segment of the Honolulu rail. The Office of the County Auditor released its plan of audits for FY 2018, to include the Charter-mandated Comprehensive Annual Financial Report (CAFR), county vehicle use, a peer review of the Office of the County Auditor, and a review of premium pay and overtime and County employee travel. The audit plan also includes as areas of consideration the cost of park facilities and grants. The Planning Committee is having

ongoing meetings on an update of the Molokai Community Plan. The Council's Parks, Recreation, Energy, and Legal Affairs Committee is conducting a review of the Waiehu Municipal Golf Course. Honolulu and Kauai representatives shared information and offered insights on their golf course operations. The Council authorized the Chair to contract for fiscal and performance audits of the Department of Fire and Public Safety and the County Department of Transportation.

5. Secretary Crivello made a motion to receive the reports. Vice President Kawakami seconded the motion, which was unanimously carried.

C. National Association of Counties (NACo) Report. Councilmember Hokama said there has been a lot of distraction at the Capitol right now with certain leaders making interesting statements. Other issues are aviation reauthorization, opioid abuse, and the Farm bill, which is a key component with language regarding the Safe Drinking Water Act. The NACo board will meet in Texas in December.

D. Western Interstate Region (WIR) Report. No updates.

IV. UNFINISHED BUSINESS

A. Discussion: Legislative strategies

1. 2018 HSAC's Legislative Package – to discuss time frame

President Kanuha said he recently sent out an email of the time frame.He said we currently have measures approved last year that will be brought back for incorporation this year. If there are any additional proposals, the councils should submit them to HSAC by September 8, 2017. Hawaii County has a Council meeting on September 7, so there might be a few items to include. September 29 is the deadline for the Executive Committee to forward proposals to each county for consideration. November 30 is the deadline for the counties to approve the proposed HSAC legislative package. Those 10 measures voted on last year will be included for discussion purposes this year. The Executive Committee will decide whether it wants to keep all 10. He asked that Executive Committee members make sure Councilmembers are aware of deadlines.

Council Chair White asked whether there was any thought of submitting a bill to subject the State Legislature to the Sunshine Law. Vice President Kawakami said he would be more in favor of Sunshine Law reform because it eliminates collaboration and fosters a hostile work environment.

President Kanuha noted a document had been distributed relating to the lifeguard liability issue. (*See,* attached document referencing Sections 662-1 and 662-16 of the Hawaii Revised Statutes.) Treasurer Anderson said he and staff met with Bob Toyofuku recently. According to Mr. Toyofuku, when a County lifeguard is performing any service related to their duty as a lifeguard on a State beach, that lifeguard is determined to be a State employee, so would be covered by the State in terms of any legal liability. Council Chair White asked whether clarification had been received as to whether the portion of a county park below the State high water mark would be considered a designated State beach park. Treasurer Anderson said no, that was not discussed. Council Chair White said there is only one State beach park in each County, so this doesn't really solve the issue. Treasurer Anderson said if the Executive Committee would like, he could invite Mr. Toyofuku to an HSAC meeting. The Executive Committee discussed the number of County beach parks they have. President Kanuha said it's hard to have one person derail the efforts of the councils and the mayors. Vice President Kawakami said the last two times we were able to extend the sunset date, he had introduced the legislation because on Kauai, they have Kee Beach. Kauai is always taking the lead in trying to repeal the sunset date. At the time, Mr. Toyofuku brought out the argument that no other public safety officer has these types of protections, and cited this section of the HRS. For us, you are asking our county lifeguards to protect a State beach park that's one of the most dangerous and most popular State beach parks and all we are asking for is some protection for our lifeguards who are putting themselves at risk. He said at the last moments of this session, they tried to change the Attorney General "may defend" to "shall defend," but it still didn't rise to the level that we could accept it. The Senate President has publicly said the Senate would introduce a bill and pass it over to the House to repeal the sunset. So, from the Senate side we have a commitment to it going back to the way it originally was. President Kanuha said that will be up for discussion on the 2018 legislative package. Secretary Crivello said she would like to have us push for the repeal of the sunset provision. Councilmember Hokama said maybe the key thing for Mr. Toyofuku to remember is the last component of the statute, which says under an agreement between the State and the County. In our County, only the Council is authorized to allow the Mayor to execute an intergovernmental agreement. Council Chair White said the other point is that the lifeguards, unlike other personnel, are doing rescues in State jurisdiction, not County jurisdiction. Other emergency personnel, except maybe Fire if they go for an ocean rescue, are doing rescues on land, within the County's jurisdiction. President Kanuha asked whether the Executive Committee should invite Mr. Toyofuku to a meeting. Treasurer Anderson said he will make the request.

2. Formulation of press release for legislative informational briefing regarding GET and TAT

They have received notification that next week the House and Senate will have an informational briefing re GET and TAT, on Monday, August 14. Per the hearing notice, it will be held by the Senate Transportation and Energy; Public Safety, Intergovernmental and Military Affairs; and Ways and Means Committees. For the House, the relevant committees are the Committee on Transportation and Committee on Finance. The hearing will be held at 10 am at the State Capitol. Scott Ishikawa is here to discuss how we will proceed with this informational briefing. President Kanuha said the Legislature wouldn't have a briefing if it didn't already know what it was going to do. He said it would be great to have a position coming out of HSAC and the counties.

President Kanuha said the State's draft presentation has been distributed. Council Chair White said the presentation provides five different funding options. He said on one page they say Oahu generates 76% of the TAT, which is incorrect. On another page, they suggest 85% of the TAT is generated on Oahu, and the reality is it's closer to 49% on Oahu and 51% on the neighborhood islands. On the page where they focus on Option 3, the numbers are very muddy, and if you add them up they don't reflect what the increase in the general excise surcharge would be. Council Chair White questioned the accuracy of specific numbers set forth in the presentation. (See the attached Notes on WAM (Ways and Means) Draft Presentation on Rail Funding Options and the draft presentation relating to the Special Session 2017.) He pointed out inaccuracies in TAT generation figures. With the growth of TAT, State's share went up by $96 million in two years, totaling $326 million.

The Executive Committee reviewed the draft presentation and discussed whether to point out miscalculations and if so, whether the press was the right vehicle or whether legislators should be contacted individually. The members also discussed their availability to attend the Special Session on Monday.

Treasurer Anderson noted the Honolulu City Council has formed a permitted interaction group of four members on rail funding. The Executive Committee discussed who would testify and developing a strategy on testimony if the opportunity is available. The Committee requested a document outlining the corrections needed.

Councilmember Hokama said the body should not focus only on the rail component, noting needs of the State for additional revenue to fund the annual required contribution for the Employer-Union Health Benefits

Trust Fund (EUTF). He provided a copy of a memo dated July 5, 2017, on the issue (see attached).

President Kanuha said he has no problem with anyone advocating on behalf of HSAC. He said HSAC has been pretty staunch in its position of the 45/55 split for TAT. Council Chair White said he thought passing a resolution supporting Oahu's position that funding for rail should be taken care of using the GET would be a mechanism. Maui County Council has passed a resolution to this effect. President Kanuha said he knows Hawaii County is not in favor of an increase in TAT. Vice President said it's easier to support an extension of the status quo, which would be the GET. The Executive Committee requested a one-page summary of talking points on the inaccuracies in the draft presentation and discussed how inaccuracies would be communicated. Secretary Crivello said she would be willing to testify about the HSAC Executive Committee's position, if testimony is allowed on Monday.

V. NEW BUSINESS

A. Discussion and consideration of extension of the general excise and use tax surcharge for the Honolulu Rail Project.

Maui County passed a resolution supporting Honolulu's position, and HSAC has that issue up for discussion. Treasurer Anderson said the Honolulu Council's position is that the fairest and most equitable option to pay for completion of the rail project is through an extension of the GET, an existing tax citizens have become accustomed to paying for over ten years now. He said if we do a combination or rely on an alternative source of revenue, anything other than a GET extension would be considered a new tax. He said GET remains the most viable option. The pool of people who pay GET is vastly larger than the roughly 250,000 real property taxpayers on this island. Treasurer Anderson introduced Resolution 17-208 (*see*, attached copy), and the Council Chair waived it and put it on the floor for consideration yesterday, but because the resolution mentioned TAT, two colleagues were concerned that we would upset some State lawmakers. His colleagues wanted the opportunity to discuss this at committee prior to passing it on to the Council.

Vice President Kawakami questioned whether there is any value to a press release prior to Monday, saying it wouldn't have to be negative. It could be a statement from HSAC, saying it's pleased the members of the House and Senate have come back to the drawing board to work out any difference remaining at the end of the session, and that HSAC believes there is a fair and equitable way to work out funding on rail, which is through an extension of the GET. We do have some time to formulate a message. Mr. Ishikawa agreed HSAC needs to have a presence at the Capitol on Monday.

President Kanuha said right now the Executive Committee is discussing consideration of the extension as proposed by Honolulu. President Kanuha focused on approving the GET extension as one of the components of HSAC's testimony. Vice President Kawakami noted the cap was always intended to be temporary. Some new legislators may have forgotten that. Whatever language we put in, HSAC can say we support the extension of the GET. Sometimes less is more. Secretary Crivello said she likes that approach. Vice President Kawakami said for 2018 he plans to add to the package a proposal for a complete repeal of the TAT cap. Council Chair White raised the issue of the TAT remaining unpaid by remarketers.

President Kanuha said he is ready to support Honolulu's request that HSAC consider the proposal to extend the GET. The Committee discussed the potential impacts if the Legislature fails to find adequate funding for the rail.

President Kanuha asked whether HSAC should adopt its own resolution.

The resolution would say, "BE IT RESOLVED that the HSAC Executive Committee supports the Hawaii State Legislature's approval of an extension of the Honolulu General Excise and Use Tax surcharge as necessary to enable the completion of the Minimum Operable Segment of the Honolulu High-Capacity Transit Corridor Project to Ala Moana Center."

Secretary Crivello made a motion to approve the proposed resolution. The motion was seconded by Vice President Kawakami and unanimously carried.

The resolution will be the basis of the testimony from HSAC on Monday.

VI. ANNOUNCEMENTS

A. Scheduling the next meeting.

The next meeting is scheduled for September 11, 2017, at 10:00 a.m., at Honolulu Hale.

B. Other announcements.

There were no other announcements.

VII. ADJOURNMENT

The meeting was adjourned at 12:38 p.m.

§662-1 Definitions. As used in this chapter the term:

"Acting within the scope of the employee's office or employment", in the case of a member of the Hawaii National Guard or Hawaii state defense force, means acting in the line of duty.

"Employees of the State" includes officers and employees of any state agency, members of the Hawaii national guard, Hawaii state defense force, and persons acting in behalf of a state agency in an official capacity, temporarily, whether with or without compensation. "Employees of the State" also includes persons employed by a county of this State as lifeguards and designated to provide lifeguard services at a designated state beach park under an agreement between the State and that county.

"State agency" includes the executive departments, boards, and commissions of the State but does not include any contractor with the State. [L 1957, c 312, pt of §1; Supp, §245A-1; HRS §662-1; am L 1988, c 135, §1; am L 1991, c 316, §1; am L 2015, c 35, §19]

§662-16 Defense of state employees. The attorney general may defend any civil action or proceeding brought in any court against any employee of the State for damage to property or for personal injury, including death, resulting from the act or omission of any state employee while acting within the scope of the employee's employment. The employee against whom such civil action or proceeding is brought shall deliver within the time after the date of service or knowledge of service as determined by the attorney general, all process or complaint served upon the employee or an attested true copy thereof to the employee's immediate superior or to whomever was designated by the head of the employee's department to receive such papers and such person shall promptly furnish copies of the pleadings and process therein to the department of the attorney general.

No judgment by default shall be entered against a state employee based on a cause of action arising out of an act or omission of such employee while acting within the scope of the employee's employment unless the department of the attorney general has received a copy of the complaint or other relevant pleadings and a period of twenty days has elapsed from the date of such receipt.

The attorney general may also defend any civil action or proceeding brought in any court against a county based on an allegedly negligent or wrongful act or omission of persons employed by a county as lifeguards and designated to provide lifeguard services at a designated state beach park under an agreement between the State and a county.

The attorney general may also defend any civil action or proceeding brought in any court against any provider of medical, dental, or psychological services pursuant to contract with the department of public safety when the provider is sued for acts or omissions within the contract's scope of work. [L 1976, c 47, §1; am L 1991, c 316, §2; am L 1994, c 143, §1]

Notes on WAM Draft Presentation on Rail Funding Options

Slide 23 — 7th bullet - Honolulu's 44.1% share of TAT must go to Rail ($13 M = 44.1%) incorrect. Honlulu 44.1% share is $41Million)
Ten year amount would be $410M, not $130M

Slide 24 — Table - 1% TAT for 10 years is $958.3 M. Neighbor Islands funding 51% or $489M - Maui $278M, Hawaii $115M, Kauai $96M
Must be using excess of TAT since 1% TAT generates only $58M in 2018

Slide 25 GET	Oahu	2,745,559,000	85.6%
	Maui	199,013,000	6.2%
	Hawaii	179,840,000	5.6%
	Kauai	81,321,000	2.5%
		3,205,733,000	

Slide 26 Payroll	Oahu	201,864,000	71.4%
	Maui	29,567,000	10.5%
	Hawaii	39,157,000	13.8%
	Kauai	12,305,000	4.3%
		282,893,000	

Slide 27 — Totally wrong - Neighbor Islands generate 51% of TAT, NOT 15%. Missing June TAT
How do Maui and Hawaii generate negative TAT in July and August?

% Generated	Working Group Distribution		
48.9%	$ 236,956,797		Oahu
29.3%	$ 141,980,248		Maui
12.5%	$ 60,571,778		Hawaii
9.3%	$ 45,065,403		Kauai
	$ 484,574,226		

Slide 28 — Slide uses only percentages, no specific numbers on what the State gets from TAT

Allocations	Presentation	2018	2018
State	54.0%	61.2%	326,536,000
Counties	21.0%	17.4%	93,000,000
Tourism	18.0%	15.6%	83,000,000
Conv Center	6.0%	5.0%	26,500,000
Turtle Bay	0.0%	0.3%	1,500,000
Land & Devel	1.0%	0.6%	3,000,000

Slide 29 — Slide uses only percentages, no specific numbers on what the State gets from TAT

% Generated	Presentation
48.9%	76.0%
29.3%	11.0%
12.5%	8.0%
9.3%	5.0%

Slide 30 — No study of impact since 1987?
No GET increase since 1965 - any studies of the impact of an increase?

Slide 31 — No estimate of FY 2017 - Should be about $508.1M, Increase of 13.7%
Growth rate of 8.36% since inception is likely due to rate increases rather than growth in room revenues

hotel rentals	Cal Year 2016	4,502,385,200
	Cal Year 2008	3,130,759,275
	Cal Year 2009	2,618,860,475

Slide 32 — Highway funds are not part of general fund and should not be used in this justification.
County districts that generate significantly higher tax revenues willingly support districts that don't

Slide 33 — Airport funds are not part of general fund and should not be used in this justification.

Neighbor Islands and All Other	115,427,432	Revenues
	105,812,072	Expenses
	9,615,360	Excess

Slide 34 — Small harbor funds not general funds . 2016 neighbor islands were net positive

Slide 44 — Why are there no totals or projections, deficits, excesses for this option??

	.5% Surcharge Collected	.15% Surcharge Proposed	.65% Surcharge Proposed		
2016	255,000,000	76,500,000	331,500,000	7.95%	3,206,154,000

$255m surcharge is 7.95% of total GET collected of $3,206,154,000

Increase surcharge to .65%

	Incorrect Presentation	Recalculation	.5% Base at 99%	.15% Added Surch at 99%	Total		GET
2018	367,594	80,931,194	272,495,602	80,931,194	353,426,796	3.89%	3,459,629,000
	402,428	84,588,665	281,962,217	84,588,665	366,550,882	3.47%	3,579,818,000
	420,537	87,333,400	291,111,332	87,333,400	378,444,732	3.24%	3,695,976,000
	439,461	90,453,840	301,512,801	90,453,840	391,966,642	3.57%	3,828,034,000
	459,237	93,583,567	311,945,225	93,583,567	405,528,792	3.46%	3,960,485,000
2023	479,903	97,011,497	323,371,655	97,011,497	420,383,152	3.66%	4,105,556,000
	501,498	100,406,899	334,689,663	100,406,899	435,096,562	3.5%	
	524,066	103,921,140	346,403,801	103,921,140	450,324,941	3.5%	
	547,649	107,558,380	358,527,934	107,558,380	466,086,314	3.5%	
	572,293	111,322,924	371,076,412	111,322,924	482,399,335	3.5%	
2028	399,295,525	499,283,312	384,064,086	115,219,226	499,283,312	3.5%	
	417,263,823	516,758,228	397,506,329	119,251,899	516,758,228	3.5%	
	436,040,695	534,844,766	411,419,051	123,425,715	534,844,766	3.5%	
	455,662,527	553,564,333	425,818,718	127,745,615	553,564,333	3.5%	
	476,167,340	572,939,085	440,722,373	132,216,712	572,939,085	3.5%	
2033	497,594,871	592,991,953	456,147,656	136,844,297	592,991,953	3.5%	
	2,686,739,447	4,227,493,182	5,708,774,855	1,712,632,456	7,420,589,825		
Difference		1,540,753,735					
	Through 2027		3,193,096,642	957,111,506	4,150,208,148		

2028 - 2033	3,270,381,676
Target Funding	2,589,000,000
Excess	681,381,676

Slide 45 Title of slide states Oahu TAT, but calculation states Statewide TAT
TAT of $729.3M shown on slide is 76% of the Statewide TAT shown on Slide 49. The 76% figure coincides with the erroneous Oahu TAT claim on Slide 29

Slide 46 Are they going to provide "Worksheet 1" and "Worksheet 2" noted at the top right of the page?
The provided growth rate for TAT may be too hopeful. The growth in statewide hotel rental revenue base is 4% from 1996 to 2016

Slide 49 Evidently not much thought given to the .5% Surcharge for the Neighbor Islands!!!

DRAFT

Special Session 2017

RAIL TAX SURCHARGE

Table of Contents

History of project

How did we get here?

Hawaii State Legislature

- 2006 – Act 247, SLH 2005 granted county surcharge up to 0.5% on the GET to fund county public transportation systems.
  - Projected cost: $3.6B
- 2015 – Legislature and City Council approved an extension of the surcharge through 2027.
  - Projected costs: $6.57B
  - Five-year extension of the GET (2022-2027) was anticipated to yield $1.2B in additional funds.
- 2017 – the City sought an GET extension via SB1183
  - Projected costs: $8.2B
    - Includes contingency funds
    - Excludes debt service ($10B projected cost with rail financing)

Charter Amendments voted by the Oahu residents

City and County of Honolulu

- 2008 Charter Amendment: "Shall the powers, duties and functions of the city, through its director of transportation services include the establishment of a steel wheel on steel rail transit system."
  - The Vote was: Yes: 52.6% No: 47.4%
- 2010 Charter Amendment: "Shall the Revised City Charter be amended to create a semi-autonomous public transit authority responsible for the planning, construction, operation, maintenance, and expansion of the City's fixed guideway mass transit system."
  - The Vote was: Yes: 68.6% No: 31.4%
- 2016 Charter Amendment: " Should a unified multi-modal transportation system be created."
  - The Vote was: Yes: 69% No: 32%

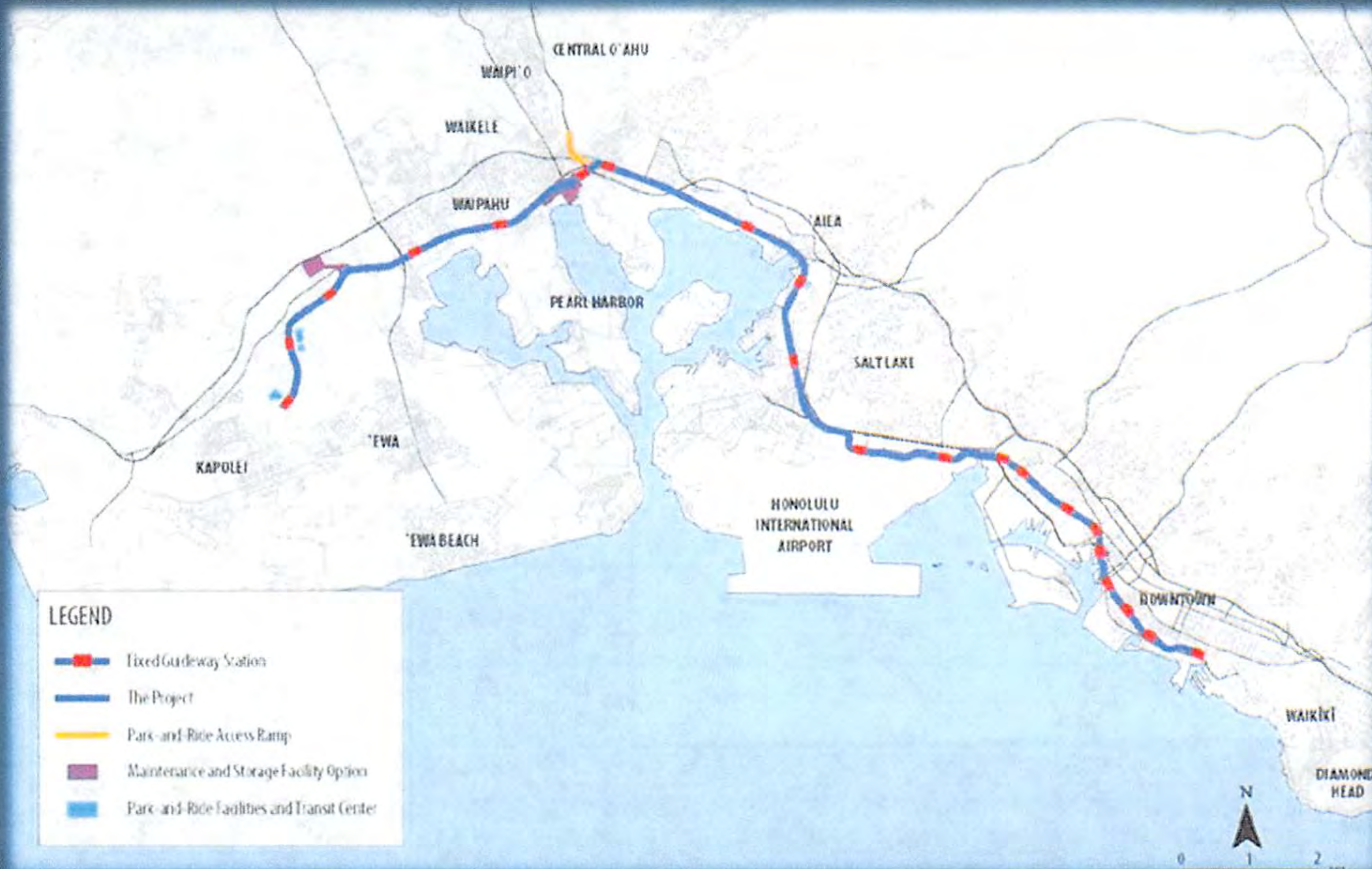
Collection of funds to date

GET Surcharge

- Projected revenue totals $5.2B from the inception of the surcharge on January 1, 2007, through the current sunset date of December 31, 2027.
- As of July 31, 2017 – HART has received **$1.98 billion** from the GET surcharge.

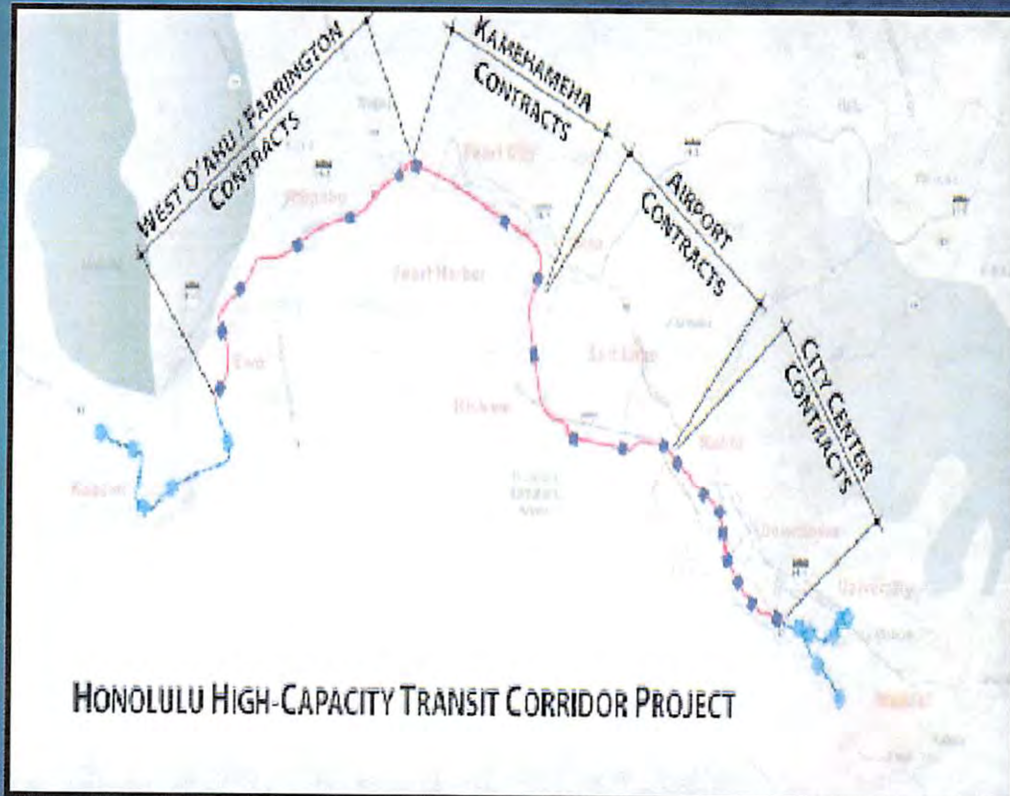
Federal Funds

- $1.55B federal Full Funding Grant Agreement (FFGA) approved in 2012 to pay for the construction of Honolulu's rail project.
- FTA has obligated **$806 million** – HART has a drawdown on $794.3 million through July 18, 2017 .
- Remaining obligation: $743.7 million


CENTRAL O'AHU
WAIPI'O
WAIKELE
WAIPAHU
'AIEA
PEARL HARBOR
SALT LAKE
KAPOLEI
'EWA
'EWA BEACH
HONOLULU INTERNATIONAL AIRPORT
DOWNTOWN
WAIKIKI
DIAMOND HEAD
LEGEND
Fixed Guideway Station
The Project
Park-and-Ride Access Ramp
Maintenance and Storage Facility Option
Park-and-Ride Facilities and Transit Center
N
0
1
2

Phases of Construction

- Segment I (West Oahu/Farrington Hwy)
  - E. Kapolei to Pearl Highlands (7 miles/6 stations)
- Segment II (Kamehameha Hwy)
  - Pearl Highlands to Aloha Stadium (4 miles/3 stations)
- Segment III (Airport)
  - Aloha Stadium to Middle Street (5 miles/4 stations)
- Segment IV (City Center)
  - Middle Street to Ala Moana Center (4 miles/8 stations)



Major Project Delays

- Legal delay costs related to the Notice to Proceed, Archaeological Inventory Survey, and Traditional Cultural Property have incurred $172M in delay costs.
- The West Oahu/Farrington Highway Guideway section incurred a total delay of 23.5 months and $107M in costs.
- Protests by unsuccessful vendors over the Design-Build-Operate-Maintain Contract resulted in a 9 month delay in awarding the contract and a $8.7M settlement of delay claims.
- "Premature" notice to proceed on contracts

Other costs related to construction

- Change Orders
  - HART Board approved nearly $15M in additional change orders in March 2017 to help cover changes of prematurely awarded construction contracts.
  - $65M unresolved change orders Kiewit
  - HART has already approved more than $284M in change orders to Kiewit, including $57M in 2014.
  - $27M for Ansaldo in change orders
- HART Administration/Staff
  - **$22.9 million**
  - Eminent Domain (cost of acquiring parcels along rail route)
- Contingency - $1.1B in allocated and unallocated contingency
  - The FFGA included $644M in allocated and unallocated contingency

Who is HART?

Who is the Honolulu Authority for Rapid Transportation (HART)?

- HART is responsible for the planning, construction and expansion of the Honolulu Rail transit project.
- Semi-autonomous agency established on July 1, 2011 through an amendment to the Revised Charter of the City and County of Honolulu.
- KRISHNIAH N. MURTHY, P.E., F. ASCE, Interim Executive Director of HART. (Term December 5, 2016 to December 4, 2017)
- ANDREW ROBBINS – new executive director to start in September
- HART is governed by a 10-member volunteer Board of Directors, serving five-year staggered terms.

HART Board of Directors


Damien Kim
Chair


Terrence Lee
Vice-Chair


John Henry
Felix


Wes Frysztacki


Ford
Fuchigami


Terri Fujii


Glenn M.
Nohara


Ember Shinn

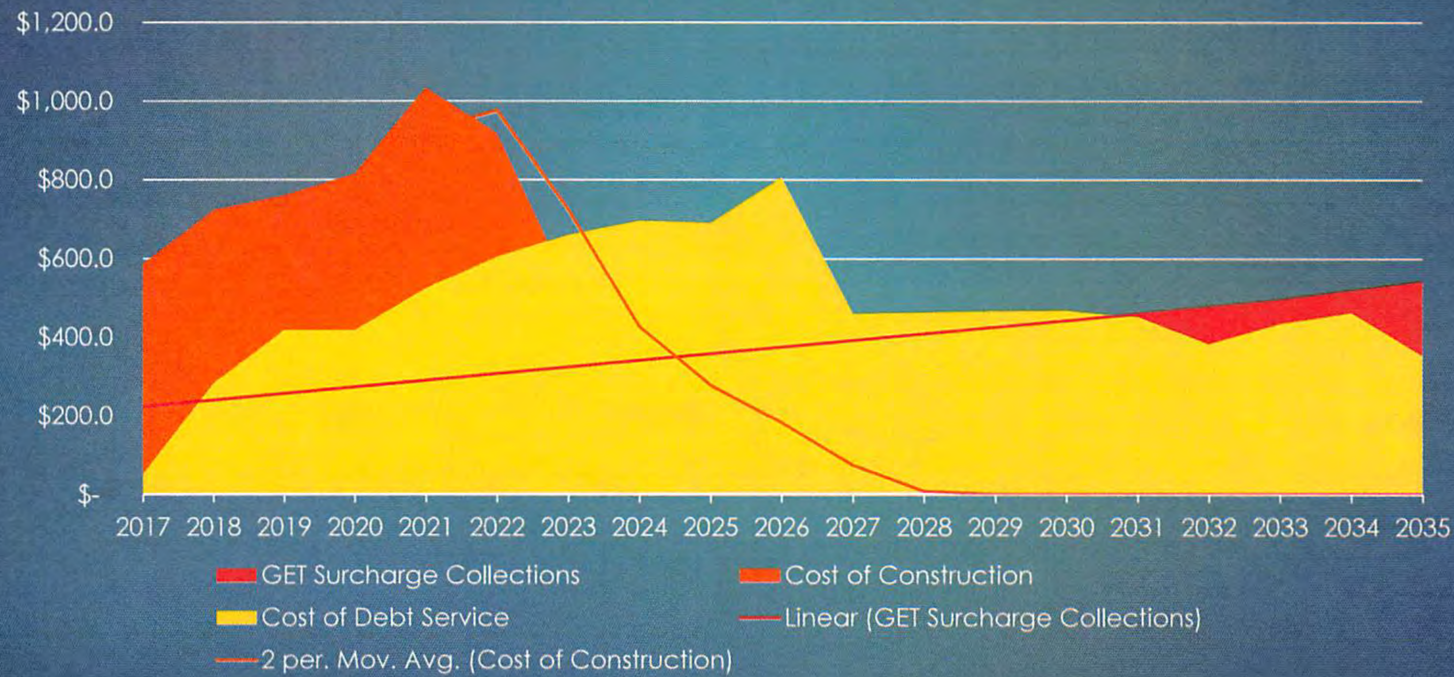

Kathy
Sokugawa


Hoyt H. Zia

Project costs

GET Surcharge Collections vs Cost of Construction vs Debt Service

(in $ millions)



Estimated cost for completion

Contract Summary Status	Estimate at Completion
Active Contracts (includes allocated contingency)	$ 4,129,313,000
Unawarded Construction (includes allocated contingency)	$ 1,928,548,000
Staff and Consultants (includes allocated contingency)	$ 1,286,632,000
Completed Contracts	$ 546,950,000
Unallocated Contingency	$ 273,641,000
Total Capital Project (excludes financing costs)	**$ 8,165,084,000**

Cost and Percentage Completion of Major Contracts Awarded:

- West Oahu/Farrington Highway Guideway ($662M, 97.1%); Kamehameha Highway Guideway ($82M, 88.9%); Maintenance and Storage Facility ($274M, 100%); Core Systems ($601M, 43.0%); and Airport Section Guideway and Stations Group ($875M, 5.0%).
- **HART currently has over $4.27B in either completed or awarded contracts**, which include 15.9 of the 20.1 miles of guideway and 13 of the 21 stations.
- The Project plans to procure the City Center Section Guideway and Station Group Design-Build (CCGS) package and the Pearl Highlands Garage and Transit Center (PHGT) DB package in 2018.

Project reports and recommendations

Porter & Associates, Inc. Report

Jan. 2012 and Sept. 2012

- The Project will require an additional $80.6 million in operating subsidies in its first full year of operation (2020).
- The City would need to achieve a lower rate of growth in non-transit uses of General Fund and Highway Fund revenues.
- Stress tests determined that the City would have the financial capacity to withstand a 10% increase in Project cost, and a lower rate of growth in GET surcharge revenues.
- Tests indicated that the City could incur an additional debt obligation of $373.2M, and may need to fund between $70.9M and $123.1M in rail operating and capital costs that would need to be satisfied from other, non-Project revenues available to the City.

Project Management Oversight Contractor Report

2016 Risk Refresh Report

- Jacobs Engineering Group, Inc. was assigned by the FTA in 2009 to monitor the Project and provide "information and well-grounded professional opinions regarding the reliability of the project scope, cost, and schedule".
- Lack of attention on risk, cost containment and management of the project.
- Poor management of the design build contracts.
- Lack of technical capability on staff.

Federal Transit Administration

Requesting a financial plan by September 15th

HART

CMS AP00-02212

HONOLULU AUTHORITY for RAPID TRANSPORTATION

July 24, 2017

The Honorable Ronald D. Kouchi, President
State Senate
Hawaii State Capitol
415 South Beretania Street, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki, Speaker
State House of Representatives
Hawaii State Capitol
415 South Beretania Street, Room 431
Honolulu, Hawaii 96813

The Honorable Donovan M. Dela Cruz, Chair
Senate Committee on Ways and Means
Hawaii State Capitol
415 South Beretania Street, Room 208
Honolulu, Hawaii 96813

The Honorable Sylvia J. Luke, Chair
House Committee on Finance
Hawaii State Capitol
415 South Beretania Street, Room 306
Honolulu, Hawaii 96813

The Honorable Lorraine R. Inouye, Chair
Senate Committee on Transportation and Energy
Hawaii State Capitol
415 South Beretania Street, Room 210
Honolulu, Hawaii 96813

The Honorable Henry J.C. Aquino, Chair
House Committee on Transportation
Hawaii State Capitol
415 South Beretania Street, Room 419
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, Senator Dela Cruz, Representative Luke, Senator Inouye, and Representative Aquino:

Attached is a letter received by the Honolulu Authority for Rapid Transportation (HART) on July 24, 2017, from the Federal Transit Administration Executive Director Matthew J. Welbes, requesting an updated Financial Plan by September 15, 2017 sufficient to deliver the total Project. We look forward to providing any assistance you may need in the upcoming Special Session.

If you should have any questions regarding this matter, please do not hesitate to contact our office.

Very truly yours,

Kristhnah N. Murthy
Interim Executive Director and CEO

Attachment

cc: The Honorable David Y. Ige, Governor
The Honorable Brian Schatz, Senator
The Honorable Mazie Hirono, Senator
The Honorable Tulsi Gabbard, Congresswoman
The Honorable Colleen Hanabusa, Congresswoman
All Members of the State Senate
All Members of the House of Representatives
The Honorable Ron Menor, Chair, and All Members of the Honolulu City Council

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U.S. Department of Transportation
Federal Transit Administration

Executive Director

1200 New Jersey Avenue, SE
Washington, DC 20590

JUL 2 4 [illegible]

Mr. Kristhnah Murthy
Interim Executive Director and Chief Executive Officer
Honolulu Authority for Rapid Transportation
1099 Alakea Street, Suite 1700
Honolulu, HI 96813

Dear Mr. Murthy:

As we discussed during our meeting on June 12, 2017, the Recovery Plan submitted by the Honolulu Authority for Rapid Transportation (HART) on April 28, 2017 for the Honolulu Rail Transit Project (Project) is inadequate. The Recovery Plan does not include a financial plan with funding sufficient to cover HART's current estimated total Project cost. After our meeting, on June 16, 2017, I received a joint letter from the President of the State Senate and the Speaker of the House of Representatives of the Hawaii State Legislature committing to a special session and communicating their resolve to craft a solution that will provide the City and County of Honolulu with a dedicated revenue stream sufficient to complete the Project described in the Full Funding Grant Agreement (FFGA).

The Federal Transit Administration (FTA) has worked with HART and communicated the critical need for a viable financial plan since our August 2015 request for additional information about the project budget and schedule. The FTA has highlighted the need for action while working with you to identify potential solutions that would fulfill HART's obligations under the FFGA.

We have noted the Hawaii Legislature leadership's intent to hold a special session during late August and will expect to hear from HART shortly thereafter, providing a financial plan sufficient to deliver the total Project by September 15, 2017. Absent receipt of a viable financial plan, FTA will be required to consider its remedies as set forth in the FFGA.

Please contact FTA's Region IX Administrator Leslie Rogers or me if you have any questions.

Sincerely,

Matthew J. Welbes

Cc: Mayor Kirk Caldwell

Possible options for rail construction

Areas of common ground

- Lands acquired by City (parcels sitting vacant/inactive)
- HART administration costs ($22M) to be paid for by the City –not out of the GET surcharge
- Limit how much can be spent on marketing
- Consider prohibiting City from billing departments (i.e. Corp Counsel)
- Reduce the State's administrative fee to 1%
- Tax Foundation lawsuit on 10% administration fee – use future allocations to payback
- Possibility of drawdown method of disbursing funds

Conference Position: SB1183 SD2 HD2 CD1

- GET Surcharge sunsets in 2027**
- 12% TAT (Increase of 2.75%) from 2018-2027
- Requiring TAT and Surcharge funds to be spent on capital costs of a mass transit project (not operating or administrative costs)
- State Administration fee for TAT decreases from 10% to 1%.
- Allocate $50M to the New Start Education Fund from 2018-2027
- Decreasing TAT allocation to counties from $103M to $93M from 2018-2027
- Honolulu's portion of TAT allocation ($13M = 44.1%) must go to fund rail from 2018-2027
- Prohibits the use of public funds for reconstruction or redevelopment of an event venue for counties already collecting GET surcharge for a mass transit project

2.75% Increase of Statewide TAT	$ 2,282,940,086
44.1% share of Honolulu TAT	$ 130,000,000
New Start Education Fund	$ (500,000,000)
Total (2027):	**$ 1,912,940,086**

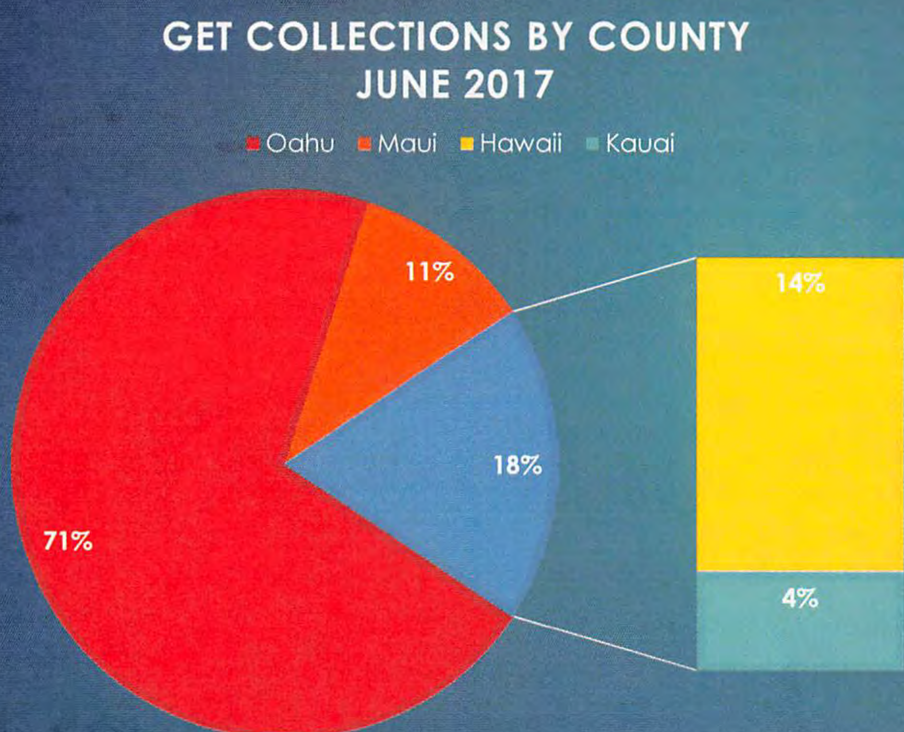
**Current projections already include GET surcharge until sunset 2027. This chart shows potential identified revenue sources.

House Position: SB1183 SD2 HD2 HCD2 FA6

- Extend GET Surcharge to 2028
- Increase TAT 1% from 2018-2028
- Requiring TAT and Surcharge funds to be spent on capital costs of a mass transit project (not operating or administrative costs)
- State Administration fee for TAT decreases from 10% to 1%.
- Allocate $25M to the New Start Education Fund from 2018-2028
- Increasing TAT allocation to counties to $103M from $93 M from 2018-2028
- Prohibits the use of public funds for reconstruction or redevelopment of an event venue for counties already collecting GET surcharge for a mass transit project

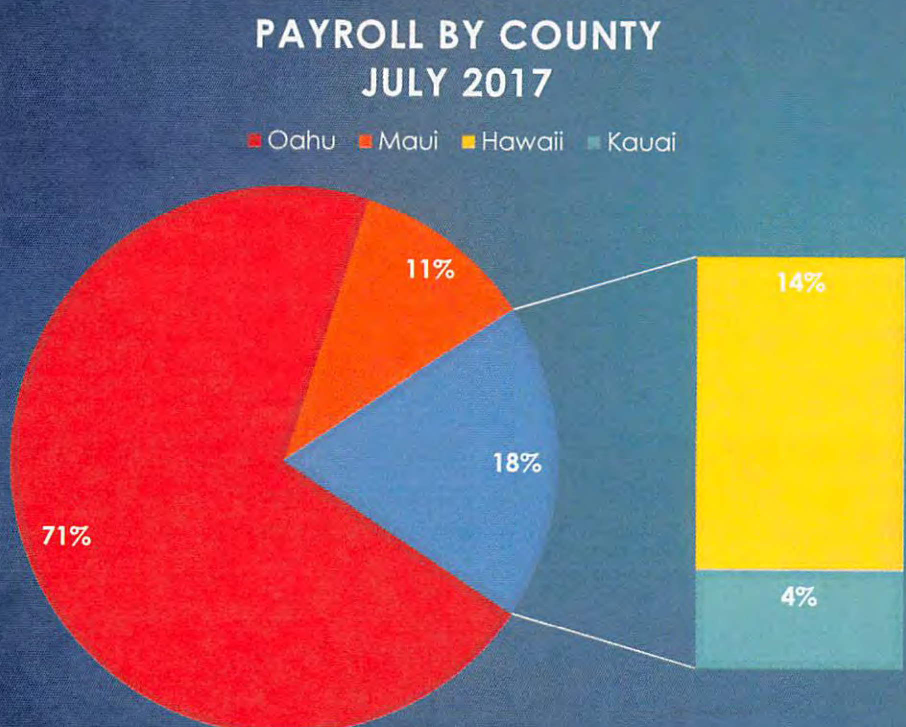
Surcharge Oahu Only 99% of GET	$ 398,697,478
1% of statewide TAT	$ 958,301,113
New Start Education Fund	$ (250,000,000)
Total (2028):	**$ 1,106,998,591**

Statewide GET Collections



County	Total Monthly Collections	% of Total
Oahu	$ 546,243,167.58	71%
Maui	$ 35,570,292.18	11%
Hawaii	$ 34,648,222.35	14%
Kauai	$ 13,909,593.03	4%

Statewide GET Allocations (payroll)

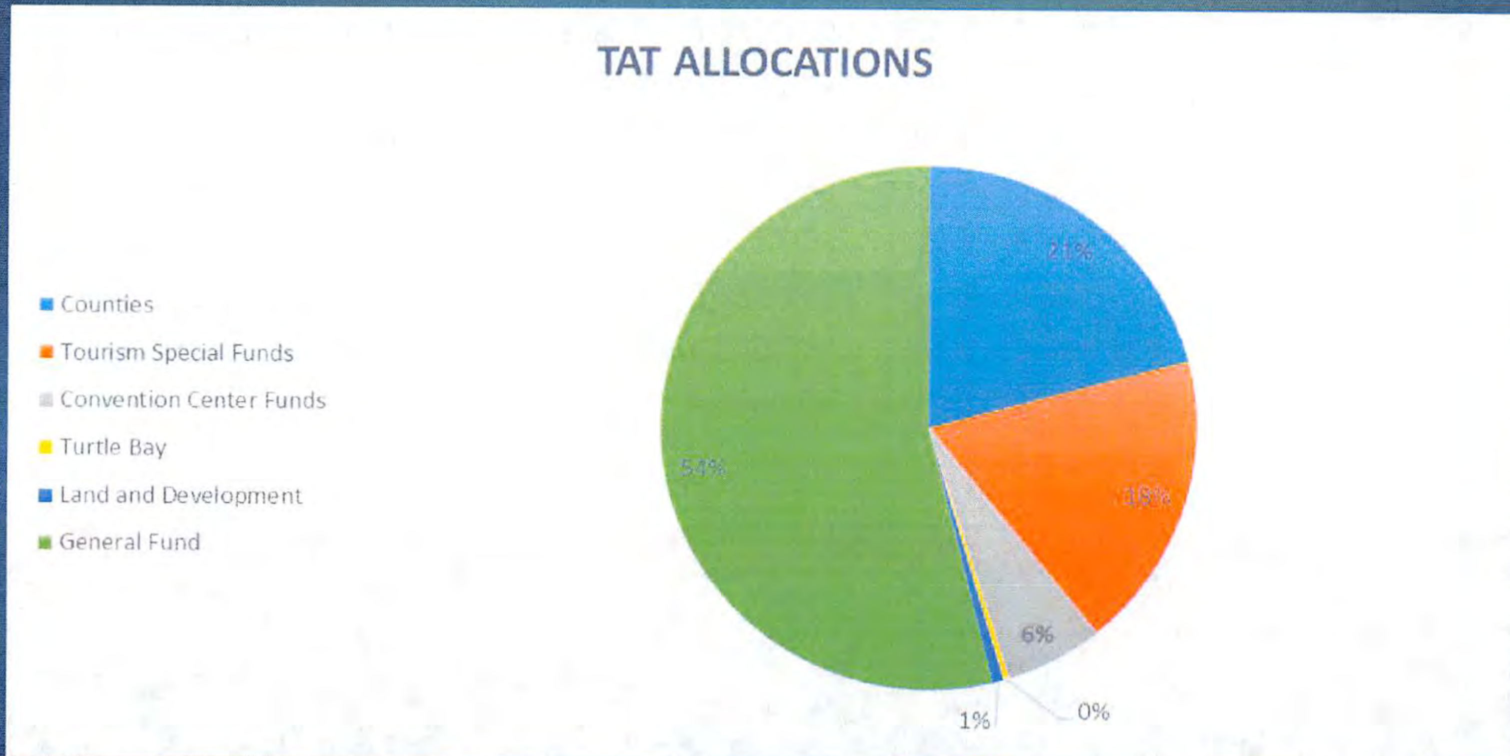


Payroll by Island ($ in thousands)				
District	7/5/17	7/20/17	Total July	%
Hawaii	$ 19,624	$ 19,532	$ 39,157	13.8
Oahu	$ 97,436	$ 97,139	$194,575	68.8
Molokai	$ 659	$ 628	$ 1,287	0.5
Kauai	$ 6,175	$ 6,129	$ 12,305	4.3
Maui	$ 14,056	$ 13,548	$ 27,604	9.8
Lanai	$348,912	$327,355	$ 676	0.2
None	$ 3,027	$ 4,261	$ 7,289	2.6
Total	$141,328	$141,567	$282,895	100%

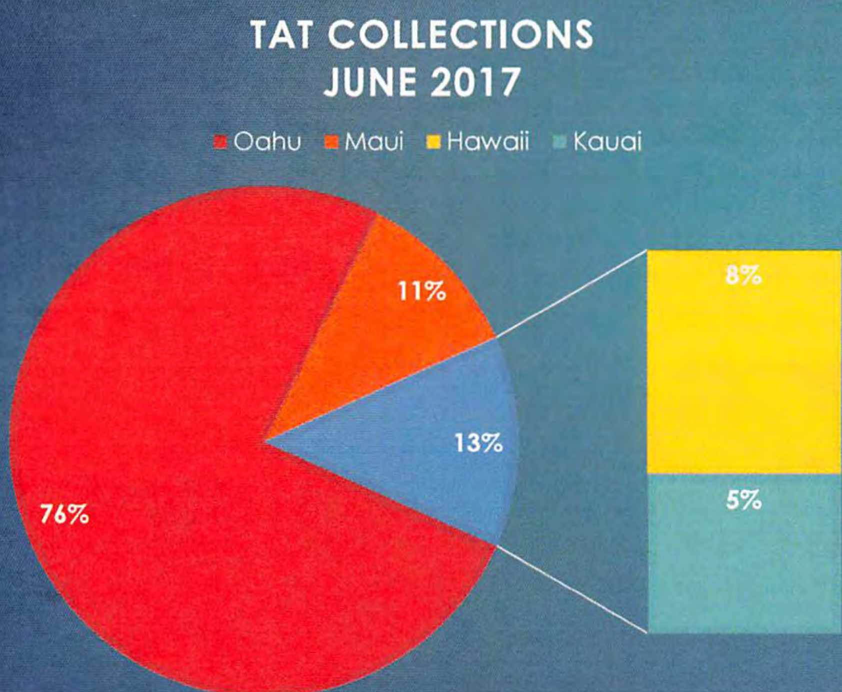
Monthly County TAT Collections FY2016 – 2017

		OAHU	%	MAUI	%	HAWAII	%	KAUAI	%	STATEWIDE
2017	June									
	May	$ 33,531,021	77%	$ 4,669,467	11%	$ 3,356,994	8%	$ 2,240,040	5%	$ 43,797,522
	April	$ 29,753,496	73%	$ 4,993,989	12%	$ 3,782,475	9%	$ 2,119,114	5%	$ 40,649,074
	March	$ 31,455,485	75%	$ 4,843,511	12%	$ 3,654,454	9%	$ 2,038,663	5%	$ 41,992,113
	February	$ 38,668,517	76%	$ 5,295,453	10%	$ 4,289,785	8%	$ 2,796,437	5%	$ 51,050,192
	January	$ 36,008,613	77%	$ 4,611,520	10%	$ 3,362,353	7%	$ 2,586,243	6%	$ 46,568,729
2016	December	$ 24,176,733	78%	$ 3,323,893	11%	$ 2,092,990	7%	$ 1,601,212	5%	$ 31,194,828
	November	$ 25,858,142	79%	$ 3,127,132	10%	$ 1,982,008	6%	$ 1,815,875	6%	$ 32,783,156
	October	$ 28,869,931	81%	$ 2,616,844	7%	$ 2,272,422	6%	$ 1,784,129	5%	$ 35,543,327
	September	$ 32,149,967	81%	$ 3,042,120	8%	$ 2,424,324	6%	$ 2,232,205	6%	$ 39,848,616
	August	$ 67,643,459	98%	$ 2,620,279	4%	$ (3,129,130)	-5%	$ 1,989,682	3%	$ 69,124,290
	July	$ 50,658,531	125%	$ (9,488,553)	-23%	$ (2,477,686)	-6%	$ 1,986,277	5%	$ 40,678,568
	TOTAL FY17	$ 365,242,874	**85%**	$ 24,986,188	**6%**	$ 18,253,994	**4%**	$ 20,949,838	**5%**	$ 429,432,893

Statewide TAT allocations



County TAT Collections and Allocations



County	Distribution (per HRS 237-D)
Oahu	44.1%
Maui	22.8%
Hawaii	18.6%
Kauai	14.5%

Statewide TAT increases

TAT Rate Changes and Effective Dates, 1987-Current	
Effect Date	Rate
January 1, 1987	5.0%
July 1, 1994	6.0%
January 1, 1999	7.25%
July 1, 2009	8.25%
July 1, 2010	9.25%

Source: The Auditor, State of Hawaii, 2015

- *Research by several University of Hawaii economics professors found that Hawaii's 5% TAT of 1987 did not have a statistically significant negative revenue impact on lodging suppliers. (Mak, 2016)*

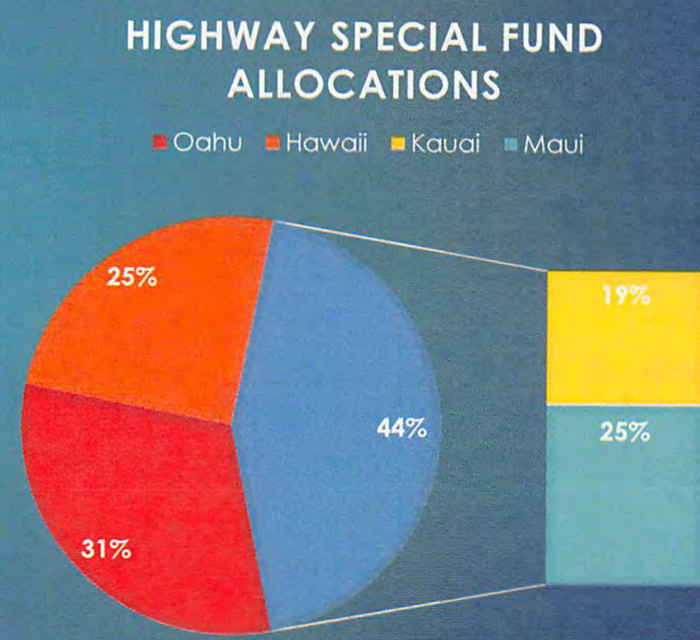
TAT Historical Growth Statewide (2006 - 2016)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
TAT Total Revenues	$ 446,794	$420,981	$395,242	$368,576	$323,950	$284,472	$224,250	$210,622	$229,388	$224,942	$217,008
% change	6.13%	6.51%	7.23%	13.78%	13.88%	26.85%	6.47%	-8.18%	1.98%	3.66%	

Per B&F, (29 year average growth rate since inception in 1987 is 8.36%. Last 10-year average, including Great Recession, is 8.52%)

Statewide highways collections and allocations

Highways Fiscal Year Ending June 30, 2016		
County	**Gross Revenue**	**% Generated**
Oahu	$ 80,977,632	60%
Hawaii	$ 23,546,086	17%
Kauai	$ 9,809,793	7%
Maui	$ 20,433,625	15%
Total	**$ 134,767,137**	



Statewide airport collections and allocations

Airports Fiscal Year Ending June 30, 2016							
	Total	**Honolulu Int.**	**Hilo Int.**	**Kona Int.**	**Kahului**	**Lihue**	**All others**
Revenue	$ 353,071,282	$ 237,643,850	$ 7,286,685	$ 24,062,346	$ 57,926,473	$ 24,424,710	$ 1,727,218
Expenses	$ 259,222,720	$ 153,410,648	$ 14,549,461	$ 21,629,608	$ 28,865,902	$ 19,649,703	$ 21,117,398

Statewide harbors collections and allocations

Small Boat Harbors (DOBOR)						
	2015			2016		
	Revenues	Expenses	Difference	Revenues	Expenses	Difference
Hawaii	$ 2,296,010	$ 3,618,440	$ (1,322,429)	$ 2,535,556	$ 2,328,168	$ 207,387
Maui	$ 2,795,562	$ 2,325,249	$470,312	$ 2,988,353	$ 2,279,622	$ 708,731
Oahu	$ 6,941,574	$ 5,593,023	$1,348,550	$ 6,273,589	$4,708,488	$ 1,565,370
Kauai	$ 1,000,780	$ 2,275,132	$ (1,274,351)	$ 915,170	$ 1,771,337	$ (586,166)

Possible project options

- Option A: Stop at Middle Street
- Option B: Stop Downtown at Aloha Tower
- Option C: Complete to Ala Moana

Option A: Stop at **Middle Street**

- No extension on GET surcharge needed (legislature would not need to convene a Special Session)
- Current date (2027) provides funding to build to Middle Street
  - This would include the release of the second obligation of $743.7 under FFGA
- FFGA funds will have to be paid back to FTA
- City would need to figure out how to make up $1.55B funding gap

ATTACHMENT 2

HART

HONOLULU AUTHORITY for RAPID TRANSPORTATION

WHAT IF WE WERE TO STOP NOW?

TOTAL DOLLARS SPENT TO-DATE (JANUARY 2017)	$2,649 million
REPAY FTA FOR FFGA FUNDS DRAWN TO-DATE	$712 million
RETURN REMAINDER OF FTA GRANT	$838 million
REMAINING CONTRACT OBLIGATIONS	$150 million
EXISTING CONTRACTS TERMINATION EXPOSURE TO CLAIMS	$1,806 million
REMOVAL & DISPOSAL OF EXISTING STRUCTURES	$250 million
DEFAULT ON FULL FUNDING GRANT	Negative Standing with Federal Government for Decades
CITY EXPOSURE	Exposure to Lawsuits from Developers and Investors with Developments Near the Rail Alignment

Option B: Stop at **Aloha Tower**

- $6.8B
- Public-Private Partnerships (need enabling legislation) to assist with project costs continuing on to:
  - Civic Center
  - Kakaako
  - Ala Moana
- FFGA funds will have to be paid back to FTA
- City would need to figure out how to make up $1.55B funding gap

Option C: Complete to **Ala Moana**

- Option #1: Extend Oahu GET Surcharge only
- Option #2: Increase Oahu GET Surcharge
- Option #3: Extend Oahu GET Surcharge + Oahu TAT increase
- Option #4: Extend Oahu GET Surcharge + Statewide TAT increase
- Option #5: Statewide GET surcharge + Statewide TAT Increase
- Remaining obligation of $743.7M under FFGA released
- Condition surcharge funds

Possible Conditions

- **Forensic Audit**
  - A forensic audit could be conducted and forwarded to the City Council for its review and evaluation to include, but not limited to, project controls, management and cost containment; review and justification of change orders; amount of contingencies and its drawdowns; administrative cost to operate HART.
  - Provided that The Mayor of the City and County of Honolulu and HART submit to the City Council by the end of 2017 for its review and evaluation.
- **Public-Private Partnerships** at stations to assist with project costs (need enabling legislation)
- **State Match County Funds**
  - The State will provide (X) amount to be matched by the City.
  - If the City cannot provide the matching dollars upfront, the State is not obligated to fund the project.

Methods of Disbursement

- Drawdown method options:
  - Straight reimbursement of receipts; or
  - Grant-in-Aid; or
  - Special Loan Fund

- By limiting the use of the funds for the rail project the Legislature will be free from the fiduciary obligations which belongs to the city because it is a city project. The option is to limit the use of the funds to the cost of new construction related to the erection and installation of the rail only excluding debt service, administrative costs, operating costs, engineering and or contracted A&E services costs.

Drawdown Options

- Currently the State transfers the amount generated from the surcharge to the City quarterly with no oversight on how HART spends the funds.
- Under a drawdown process, the City would submit its invoices for payment to the state (i.e. BUF or AGS) for review and approval.
- The excess of the funds generated (through which ever option is agreed upon) would remain in the State's General Fund.

Grant-In-Aid

- City would have to provide their plans, financial information including a budget, responsibilities for State approval to be able to receive funding from the State. This including infrastructure relocation, cost of paying for real property and its location.
- If the conditions that are spelled out in the grant are not met the City will not receive funds.

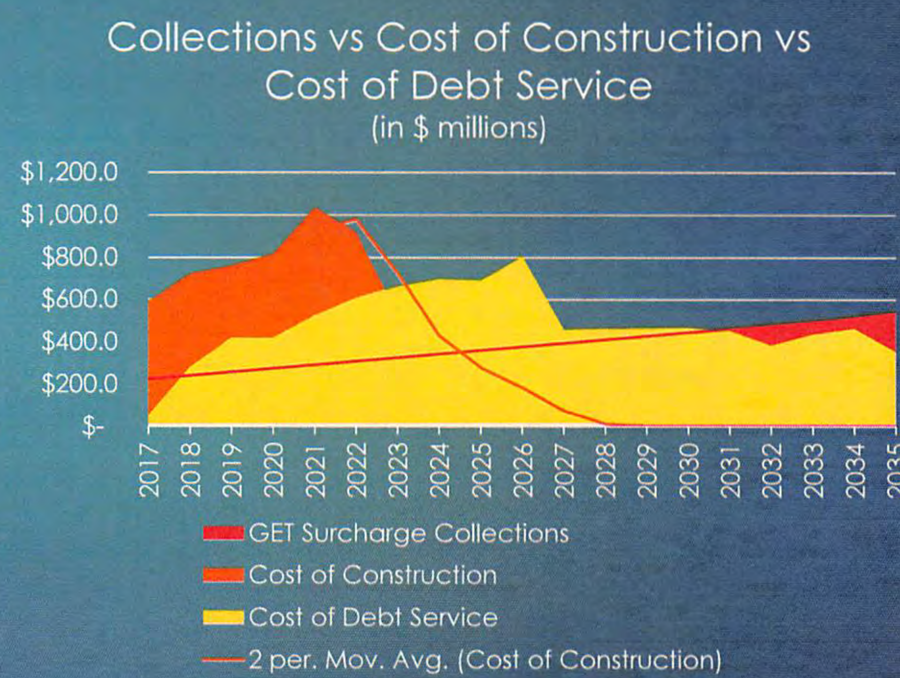
Special Loan Fund

- Similar to Grant-in-Aid. Difference is if the conditions that are imposed by the State and not met the City will have to repay the State.
- The loan program will be evaluated and funds by stages or milestones will be dispersed by the State.

Option #1: GET Surcharge only

GET extension would be for an additional 7 years but ends up costing the project more because of the financing debt.

2034	
GET extension (over 2027)	$ 2,987,200,328
Deficit	$ (2,588,823,281)
Excess	$ 398,377,047



Option #2: Increase Oahu GET Surcharge

2033	
99% GET Surcharge at 0.65%	
2018	$ 367,594
2019	$ 402,428
2020	$ 420,537
2021	$ 439,461
2022	$ 459,237
2023	$ 479,903
2024	$ 501,498
2025	$ 524,066
2026	$ 547,649
2027	$ 572,293
2028	$ 399,295,525
2029	$ 417,263,823
2030	$ 436,040,695
2031	$ 455,662,527
2032	$ 476,167,340
2033	$ 497,594,871

Current projections already include 0.5% surcharge until FY2027. An increase in the surcharge would bring in additional revenue equal to 0.15% until 2027.

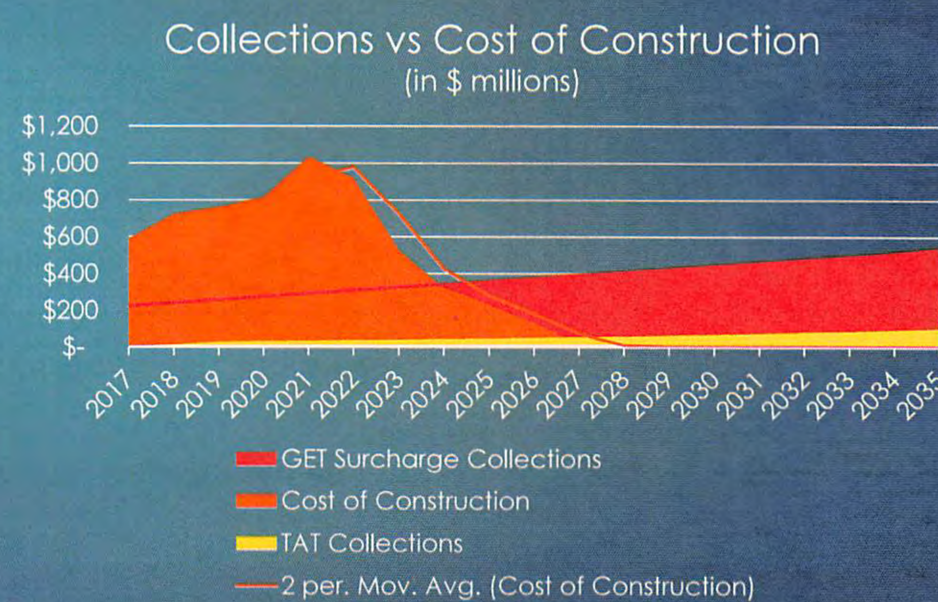
An extension of the surcharge, beyond 2027, would include the full 0.65% in revenue.

Option #3: Oahu GET + Oahu TAT

99% Oahu GET Surcharge + 1% Oahu TAT Increase

**Any amount in excess of the $2.59B deficit will remain in the general fund or designated elsewhere.*

2032	
GET extension (over 2027)	$ 2,048,498,010
1% TAT Statewide	$ 729,261,720
TOTAL:	$ 2,777,759,730
Deficit	$(2,588,823,281)
Excess	$ 188,936,449



Descriptions (Including Assumptions) *Executive Summary of Potential Funding for Rail provided by Budget and Finance	Worksheet 1 GET Oahu Only & TAT All Islands	Worksheet 2 GET & TAT All Islands
GET Growth Rate (Per Department of Taxation)	4.5%	4.5%
TAT Growth Rate (Variable rate for Worksheet 2 determined by Department of Taxation based on Council on Revenue projections)	8%	8%
Total Project Costs (Based on HART's May 26, 2017 Financial Projection: Breakeven Analysis Schedule)	$8.165 billion	$8.165 billion
Total Bond Financing Costs (Based on HART's financing schedule)	$1.399 billion	$1.399 billion
Adjustment for $21 million per year of revenues for Rail operations through financing period	$(294 million)	$(231 million)
Total Project & Financing Costs & Adjustment	$9.270 billion	$9.333 billion
Total GET Tax Collections 1/1/2007 – 6/30/2017 (June 2017 estimated based on average of previous 11 months)	$1.981 billion	$1.981 billion
Total Projected GET Extension Revenues 7/1/2017 – 6/30/2027	$3.143 billion	$4.440 billion
Total Federal Grant	$1.55 billion	$1.55 billion
Total Other Sources (Based on HART's May 26, 2017 Financial Projection: Breakeven Analysis Schedule)	$7 million	$7million
Total Tax Revenues, Federal Grant & Other Sources	$ 6.68 billon	$7.98 billion
TARGETED FUNDING SHORTFALL	$2.59 billion	$1.35 billion

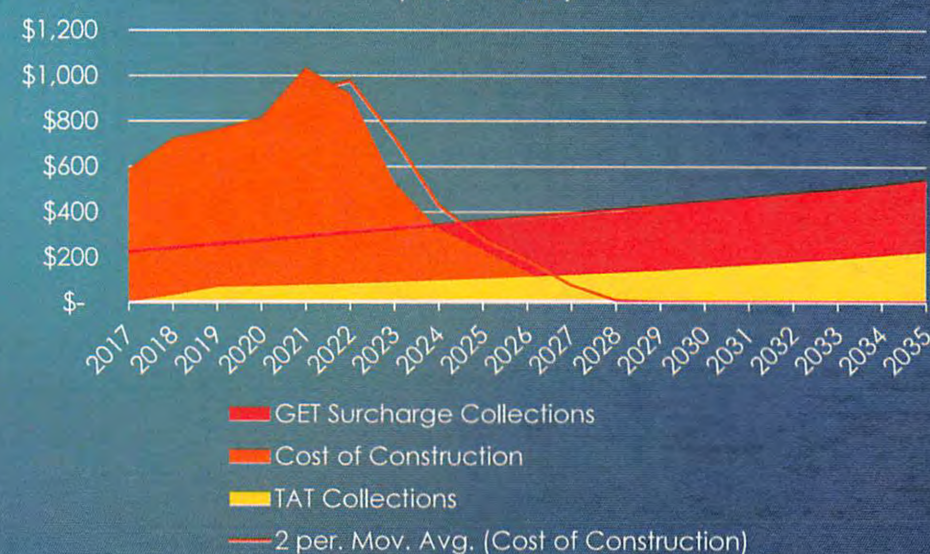
Option #4: Oahu GET + Statewide TAT

99% Oahu GET Surcharge + 1% Statewide TAT Increase

**Any amount in excess of the $2.59B deficit will remain in the general fund or designated elsewhere.*

2031	
99% GET Extension (over 2027)	$ 1,705,704,013
1% TAT Statewide	$ 1,407,578,097
TOTAL:	$ 3,113,282,111
Deficit	$(2,588,823,281)
Excess	$ 524,458,830

Collections vs Cost of Construction
(in $ millions)

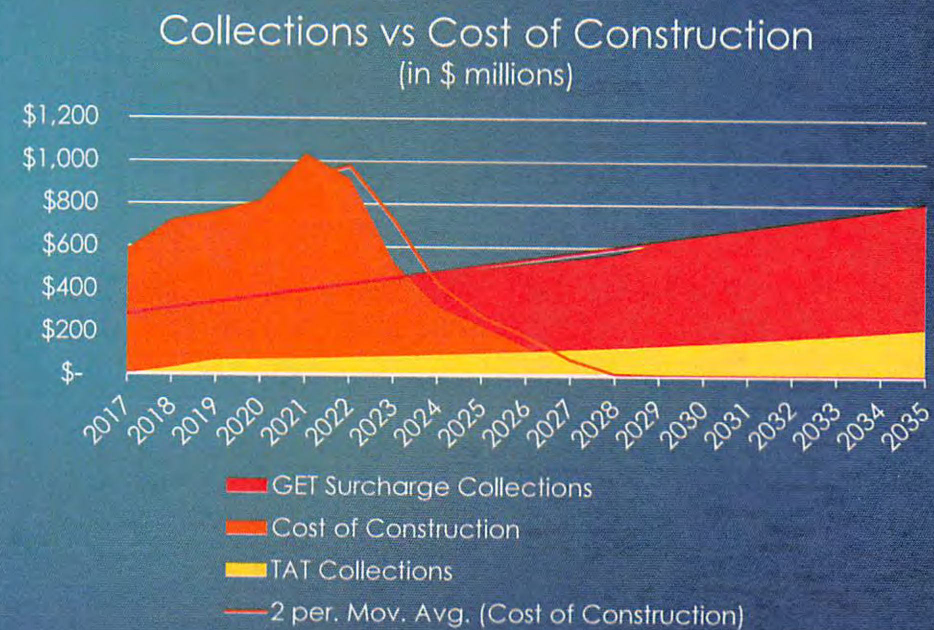


Option #5: Statewide GET Surcharge + Statewide TAT

99% Statewide GET Surcharge + 1% Statewide TAT Increase

**Any amount in excess of the $2.59B deficit will remain in the general fund or designated elsewhere.*

2028	
99% All Islands GET Extension (2028)	$ 569,567,826
1% TAT Statewide (2018-2028)	$ 958,301,113
TOTAL:	$ 1,527,868,939
Deficit	$(1,354,232,749)
Excess	$ 173,636,190



0.5% Surcharge for Maui, Hawaii and Kauai

Maui	Hawaii	Kauai

State Debt vs General Fund Tax Revenues

- Pension Unfunded Liability - $8.8B in 2015 (State's portion $7B)
  - $5.1B in 2006
  - 72% growth in 10 years
- Health Benefits Unfunded Liability - $11.8B in 2015 (State's portion $9B)
  - $6.3B in 2006
  - 87% growth in 10 years
- Tax-Exempt General Obligation Bonds Outstanding - $6.6B
  - $4.3B in 2006
  - 53% growth in 10 years
- General Fund Tax Revenues - $5.7B in 2015
  - $4.4B in 2006
  - 30% growth in 10 years

**Data provided by Budget & Finance "State General Fund Financial Plan and Impacts to the State Budget".*

State Debt vs General Fund Tax Revenues

- The State has identified more than $3B in deferred maintenance that is needed to maintain and repair State facilities/buildings.
- Summary: Increase in general fund tax revenue growth has not kept up with the increase in State debt

**Data provided by Budget & Finance "State General Fund Financial Plan and Impacts to the State Budget".*

References

- Alternatives Analysis Report (2006)
- Final Financial Plan for Entry into Final Design (2011)
- Full Funding Grant Agreement (2012)
- HART Recovery Plan (2017)
- Update Financial Capacity Assessment by Porter & Associates, Inc.
- Project Management Oversight Contractor (PMOC) Report (2016)
- How Hawaii's State Government Shares Transient Accommodation Tax Revenues with Its Local Governments," UHERO; James Mak (2016)
- Budget & Finance "State General Fund Financial Plan and Impacts to the State Budget"

July 5, 2017

Memorandum

To: Chair Colleen Takamura, Tax Review Commission
Vice Chair Vaughn Cook, Tax Review Commission
Ray Blouin, Tax Review Commission
Nalani Kaina, Tax Review Commission
John Knox, Tax Review Commission
Dawn Lippert, Tax Review Commission
Billy Pieper, Tax Review Commission
Titin Sakata, Hawaii Department of Taxation

From: Randall Bauer, PFM

Re: State of Hawaii Tax Study High Level Findings

Introduction

PFM Group Consulting LLC (PFM) was retained by the Tax Review Commission (Commission) to study three specific (and often inter-connected) areas of interest for Hawaii tax policy: who bears the burden of Hawaii's taxes; options to reform Hawaii's taxes to make them less regressive; and the best ways to generate more revenue through new and existing sources and through improved compliance with Hawaii's tax laws.

To conduct these studies, the PFM project team held numerous meetings with key Hawaii stakeholders, including elected officials, state government leadership and subject matter experts, all members of the Commission and members of the business and academic communities. PFM also benchmarked and reviewed state taxation trends and best practices around the country and gathered and analyzed economic, demographic and revenue and expenditure data for Hawaii.

As part of the project plan, PFM provides high level findings to assist the Commission in its deliberations and to provide a general perspective on how PFM will shape its final report and recommendations to the Commission. These findings are also made available to assist the Commission in providing feedback on the direction of the PFM final report, which will be provided in approximately one month.

High level findings are primarily findings of fact or supportable conclusions. They do not generally make recommendations or even suggest conclusions. They are also, of course, subject to modification as additional information and analysis is conducted through the remaining weeks of the project.

The findings are organized into the three basic study areas undertaken by the PFM project team:

1. Who bears the burden of Hawaii's taxes?
2. What are ways to reform Hawaii's taxes to make them less regressive?
3. What are ways to generate more revenue through new and existing sources and through improved compliance with Hawaii's tax laws?

Who Bears the Burden of Hawaii's Taxes?

Tax burden is an important consideration, as it impacts on key principles of taxation, particularly equity (both horizontal and vertical) and economic competitiveness. Principles of taxation were discussed at length in the PFM report to the 2012 Commission.

For the following analysis, PFM used State of Hawaii tax data from 2014-2015. It is notable that the higher marginal tax rates that were in place for tax years 2009 to 2015 were allowed to expire for 2016 and 2017. Therefore, the tax burden analysis reflects these higher rates. During the 2017 session, the Legislature reinstated these higher rates for following tax years. As a result, the effective rates and share of Hawaii incomes taxes paid by high income taxpayers would be lower than what is shown, should the Governor not sign those tax changes into law. This will be a settled issue by the time the final report is written. PFM will, where appropriate, discuss the likely impact of those changes in the final report.

According to a national tax burden analysis, Hawaii's middle and upper income taxpayers have relatively lower tax burdens.[1]

For tax burden comparison purposes, PFM has used data from an annual study conducted by the Chief Financial Officer for Washington DC.[2] This study compares the tax burden for the District of Columbia and each of the largest cities in all 50 states. It uses a family of three at different income levels for its analysis. The study is useful because it provides a national point of comparison of state and local taxes. PFM has used this study as a starting point in multiple state and local tax projects, including the study for the 2012 Commission.

According to the most recent annual tax rate and tax burden study, Honolulu households with incomes above $50,000 have low tax burdens relative to most other large cities in the US. Households with incomes between $50,000 and $150,000 (the highest income cohort included in the study) on average have tax burdens between 6.1 and 7.5 percent of income – ranking in the lowest 20 percent nationwide, as shown in Table 1.

Table 1: Honolulu, Hawaii National Tax Burden Ranking, 2015

	Taxes					Tax Burden	
Income Level	Sales	Income	Property	Auto	Total	Percent	Rank (of 51)
$50,000	$823	$1,293	$692	$251	**$3,059**	6.1%	46
$75,000	$1,105	$2,443	$1,178	$434	**$5,160**	6.9%	43
$100,000	$1,354	$3,758	$1,664	$555	**$7,331**	7.3%	41
$150,000	$1,653	$6,437	$2,636	$537	**$11,263**	7.5%	40

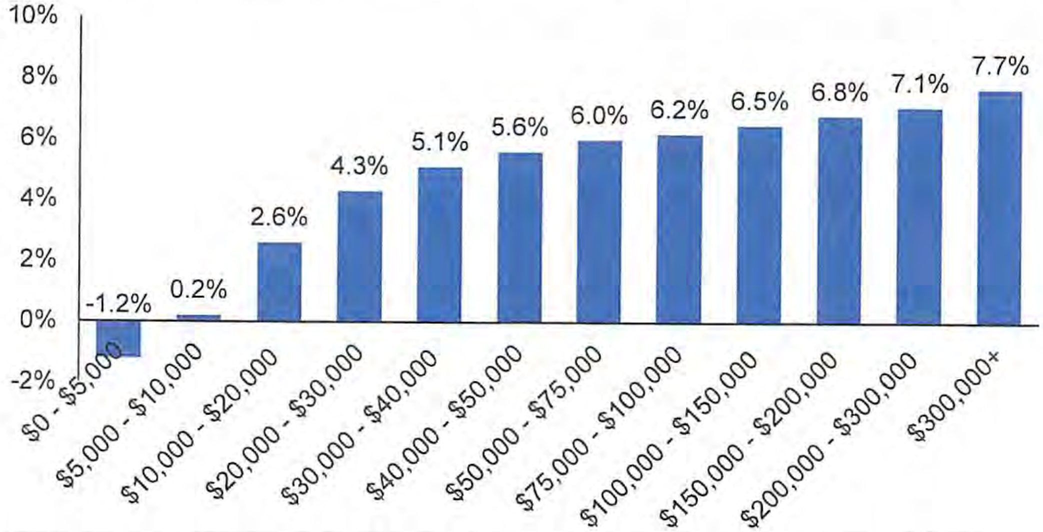
Source: Washington DC Tax Rates and Tax Burdens 2015

[1] In the study, tax burden attributed to property tax is higher for those at $25,000 than other households because it is calculated off an assumed rent for a 3-person family rather than off the assumed assessed value of a home. The median rent in Hawaii is approximately 56 percent above the national average, resulting in higher assumed property taxes paid through rent. However, property taxes in Hawaii are relatively low – the median paid residential property tax in Hawaii was over 1/3 below the national average in 2015. Therefore, the project team believes a 20 percent of rent assumption is highly inflated, and therefore that income cohort is not included in this analysis.
[2] Washington DC Tax Rates and Tax Burdens 2015 – A Nationwide Comparison. Issued December 2016.

Hawaii's income tax structure is broadly progressive.

The most significant marginal increases in effective tax rates occur between $0 and $40,000. Between $40,000 and $200,000, marginal increases are consistent but modest. A more significant rise in the effective tax rate occurs between $300,000 and $300,000 and more. Households making over $300,000 and filing as a head of household pay 11 cents on the marginal dollar, one of the nation's highest marginal tax rates for upper income earners. The very wealthy pay at a significantly higher effective rate than other taxpayers.

Figure 1: Effective Hawaii Income Tax Rate by Adjusted Gross Income Range, 2014

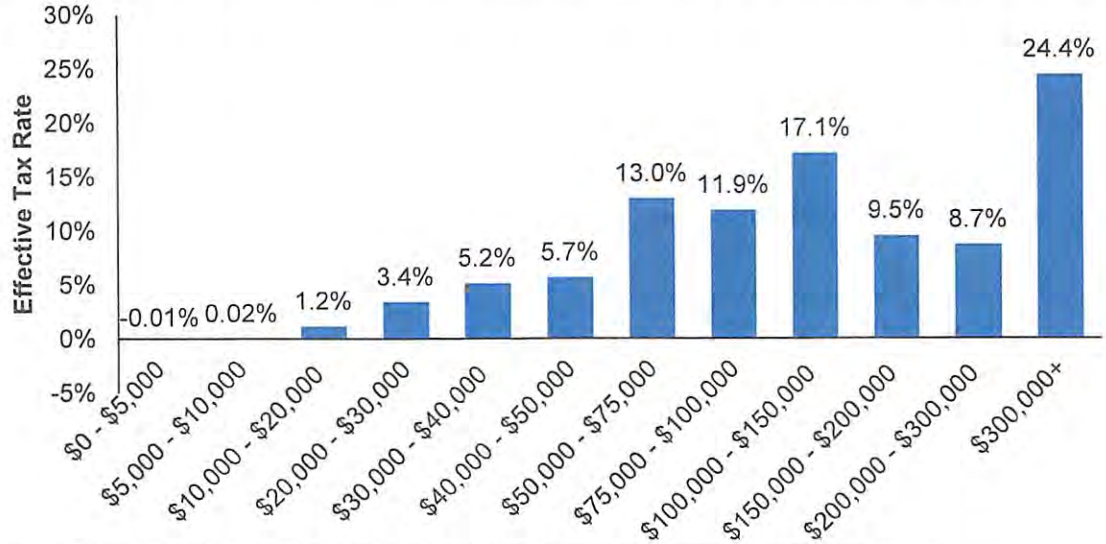


Source: Hawaii Department of Taxation, Hawaii Income Tax Statistics Tax Year 2014

Upper income households pay most of the Hawaii income tax.

Households making over $100,000 pay approximately 60 percent of all Hawaii income taxes. Those making $300,000 and over pay nearly a quarter of all taxes, despite accounting for only 1.4 percent of all taxpayers. Middle income taxpayers ($50,000 - $100,000) pay approximately another quarter. Lower income households shoulder a relatively small percentage of the burden at roughly 10 percent.

Figure 2: Share of Total Resident Hawaii Income Tax Liability by Adjusted Gross Income Range, 2014



Source: Hawaii Department of Taxation, Hawaii Income Tax Statistics Tax Year 2014

Compared to other states, property taxes in Hawaii are relatively low.

Hawaii has the 19th lowest median property taxes and the lowest property taxes in the nation when measured against home values. When measured against homeowner incomes, the property tax burden in Hawaii is the 6th lowest of any state. For detailed property tax ranking charts by state, please see **Appendix A.**

Table 2: Hawaii Property Taxes, 2015

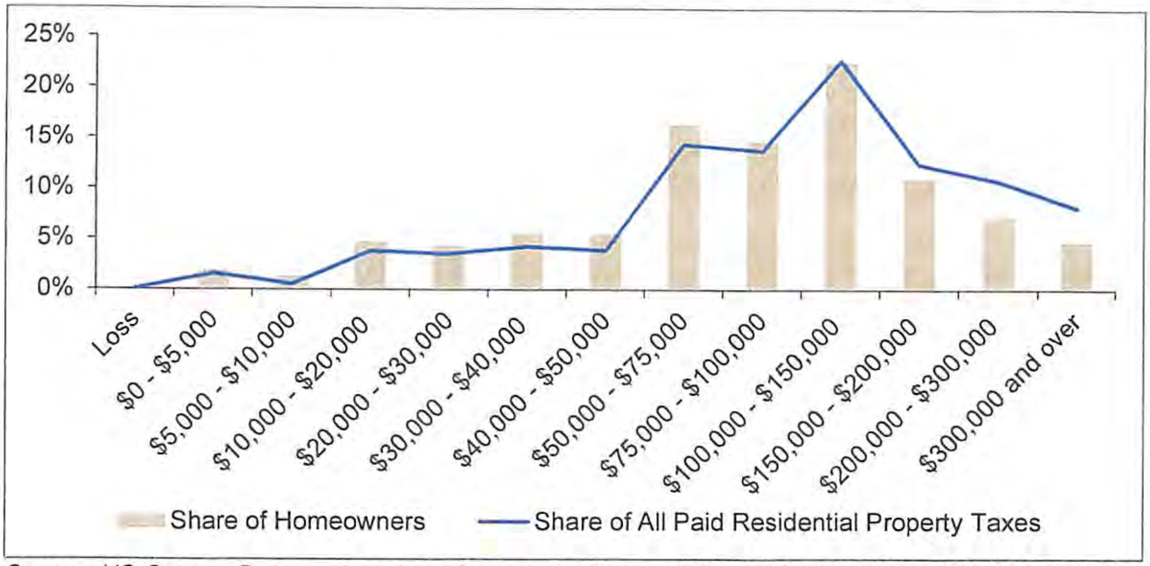
	Median Property Taxes Paid	Property Tax to Home Value Ratio	Median Property Taxes to Homeowner Median Income Ratio
Hawaii	$1,482	0.3%	1.6%
Rank	19	1	6

Source: US Census Bureau, American Community Survey 1-Year Estimates

The residential property tax burden is roughly apportioned by income range.

Homeowners making over $50,000 account for 82.3 percent of all residential property taxes. This share of the property tax burden closely mirrors the share of homeowners by income range. No particular income class bears a disproportionate burden relative to its share of homeowners, as shown in Figure 3.

Figure 3: Share of Homeowners and All Paid Residential Property Taxes by Income Range, 2015

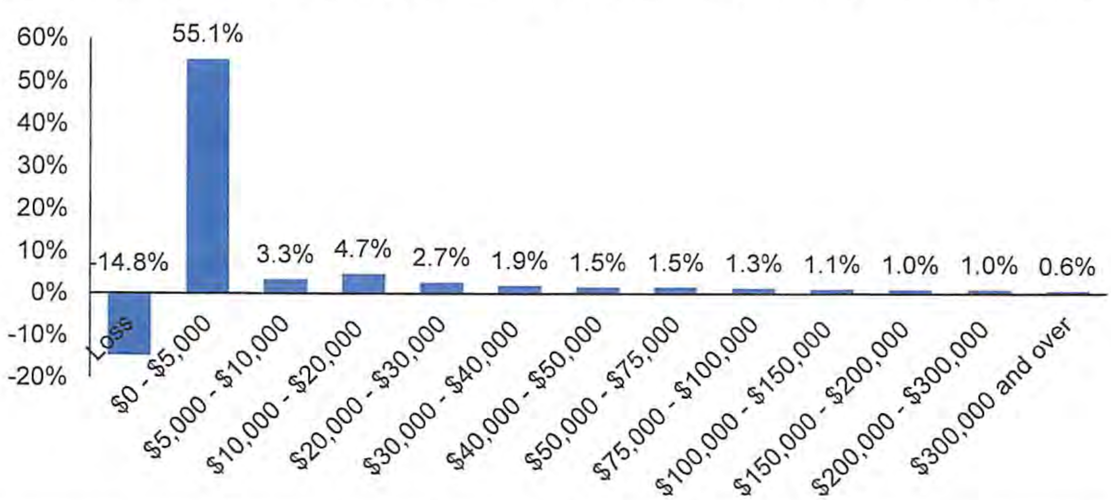


Source: US Census Bureau, American Community Survey 2015 Public Use Microdata Sample (PUMS)

As a percentage of income, property taxes in Hawaii are clearly regressive.

The ratio of property taxes to income steadily declines as incomes rise. Although comprising a very small segment of the population, homeowners making below $5,000 pay an especially large portion of their incomes in property taxes.

Figure 4: Paid Property Taxes as a Percentage of Homeowner Income by Income Range, 2015



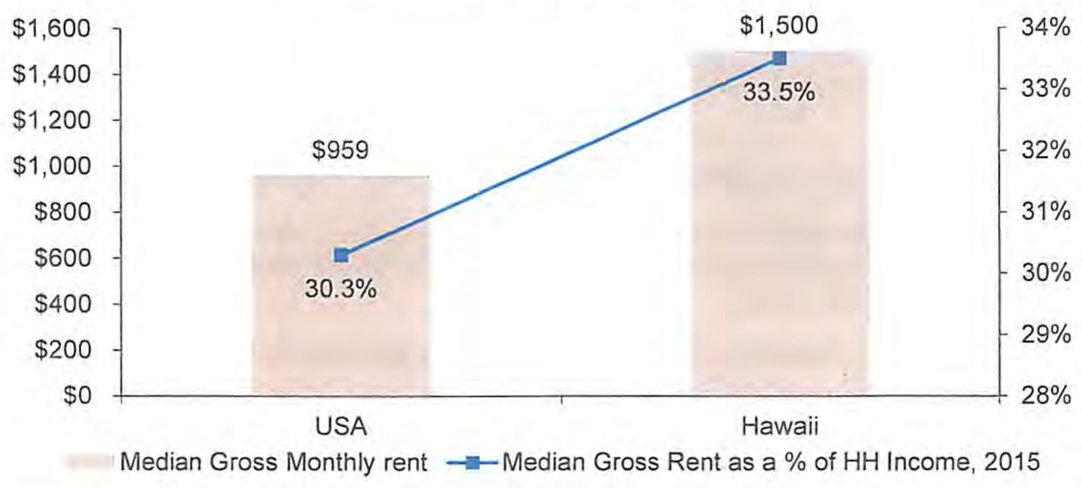
Source: US Census Bureau, American Community Survey 2015 Public Use Microdata Sample (PUMS)

Renter housing affordability is a challenge in Hawaii.

Property taxes are generally considered to be a component of overall residential housing costs for home owners. However, affordability issues related to rental housing should also be considered. Rental housing in Hawaii is very expensive; Hawaii's median gross rent (including utilities) at $1,500 is more than 56 percent above the national median. The State's median gross rent-to-household income ratio, a measure of general rent affordability, is over three percentage points above the US average. Renter housing affordability is a particularly severe challenge in Hawaii.

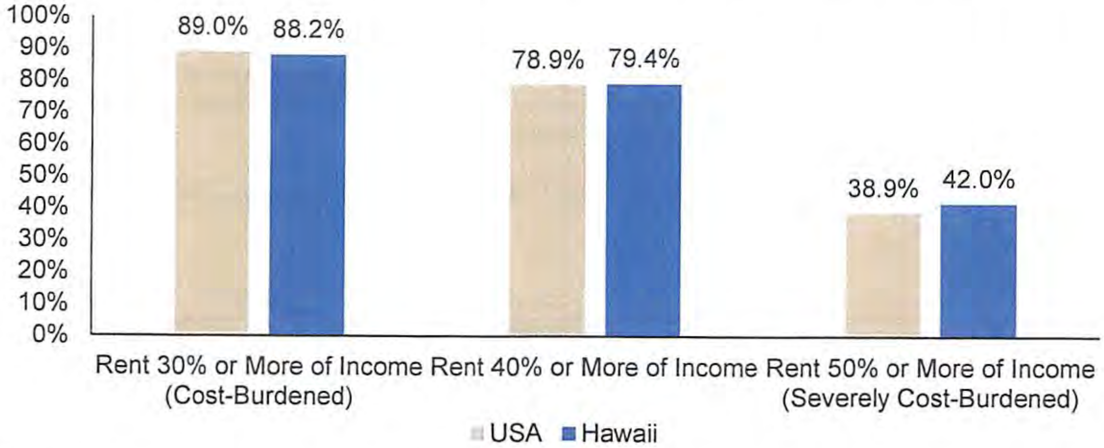
However, for low income households, the challenges are even worse. Nearly nine in ten renter households making less than $20,000 are rent cost-burdened, paying 30 percent or more of income in gross rent. Although this is slightly lower than the national average, Hawaii has a larger share of such households with ***severe*** rent burdens (50 percent or more of income) than is the national norm. Hawaii has a tax credit for low income renters; however, it is limited to $50 per exemption.

Figure 5: Median Gross Monthly Rent, 2015



Source: US Census Bureau, 2015 American Community Survey 1-Year Estimates

Figure 6: Percent Rent Cost Burdened, Renter Households Making Less than $20,000, 2015

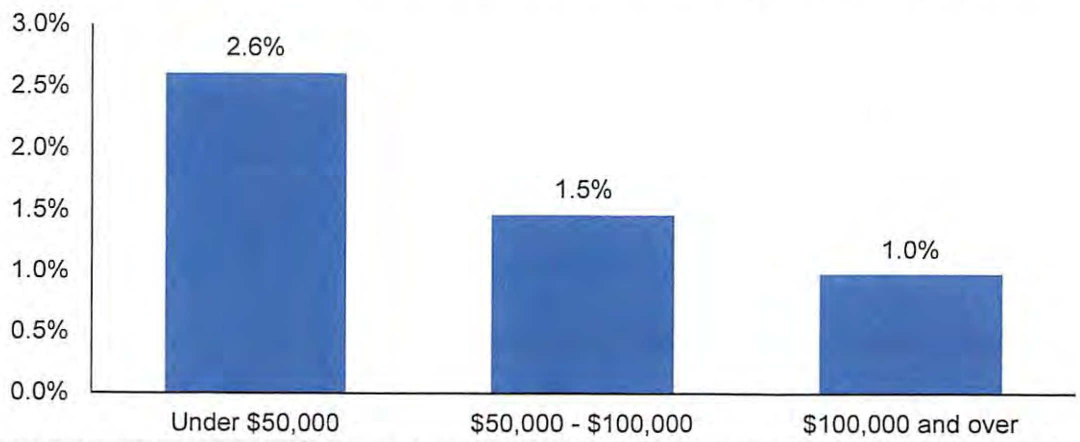


Source: US Census Bureau, 2015 American Community Survey 1-Year Estimates

The general excise tax (GET) is regressive, with the percentage of income paid as GET steadily rising as incomes decline.

Hawaii households making less than $50,000 pay roughly three cents per dollar earned in excise taxes, while those making $100,000 or more pay about one cent on the dollar. This is largely because lower income households spend more of their income on consumption expenditures subject to the GET.

Figure 7: Ratio of Excise Taxes to Household Income by Income Range, 2014

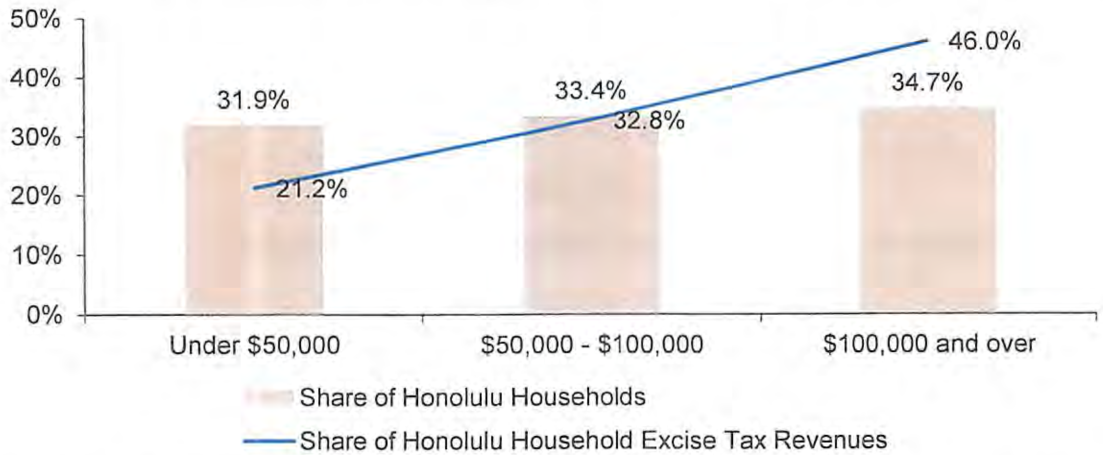


Sources: Hawaii Department of Business, Economic Development & Tourism. Honolulu Consumer Spending: 2013-2014. April 2016; US Bureau of Labor Statistics, 2015 Consumer Expenditure Survey. August 2016; US Census Bureau, American Community Survey 2014 1 Year Estimates.

In the aggregate, upper income taxpayers pay a disproportionate share of general excise taxes.

Honolulu households making under $50,000; between $50,000 and $100,000; and $100,000 and over represent nearly equal shares of Honolulu households. Those making $100,000 or more pay approximately 46 percent of the GET. This is because these households tend to spend more money ***in the aggregate*** on goods and services subject to the GET.

Figure 8: Share of Honolulu Households and Total GET Revenues by Income Range, 2013-2014



Sources: Hawaii Department of Business, Economic Development & Tourism. Honolulu Consumer Spending: 2013-2014. April 2016; US Bureau of Labor Statistics, 2015 Consumer Expenditure Survey. August 2016; US Census Bureau, American Community Survey 2014 1 Year Estimates.

A previous study done for the Commission showed that when viewed over a typical taxpayer's lifecycle, Hawaii's general excise tax structure appears less regressive.[3] This occurs because middle-aged adults tend to spend less on consumption than young adults and senior citizens, as they save for retirement. Likewise, many young adults are, because of borrowing, consuming more than their annual income and many seniors are using accumulated savings for consumption. While it's true that there are cases where a lifetime incidence analysis will show a less regressive picture, there are also many highly stressed households (and households who will be living in poverty throughout their lifetime) where, in many years, the regressive nature of the GET is very real.

Ways to Reform Hawaii's Taxes to Make Them Less Regressive

Regressivity is a key tax equity (and tax construction) issue, and it is closely linked with the previous discussion of tax burden. Tax structures and/or individual taxes are often described as being progressive, regressive or proportional. A progressive tax is one that takes a larger percentage of income from high income groups than from low income groups. A proportional tax is one that takes the same percentage of income from all income groups. A regressive tax is one that takes a larger percentage of income from low income groups than from high income groups. In practice, very few

[3] William Fox (2006). Hawaii's General Excise Tax: Should the Base be Changed? Tax Review Commission 2005-2007.

(perhaps no) taxes are designed to impose rates that increase as income decreases (which would mean there are no purely regressive taxes on their face). In practice, however, various taxes are regressive, because a greater proportion of a lower income individual's income is dedicated to paying the tax. For example, it is generally accepted that lower income individuals spend a greater percentage of their income on the tangible goods and services that are subject to the GET. As a result, the GET is considered to be a regressive tax (although the extent of that regressivity is subject to some debate). It is also notable that an overall tax structure can be regressive while some of its components are progressive – which is the case for Hawaii.

State tax structures are often viewed in combination with local taxes. This helps for comparison purposes, as States have made differing determinations of how certain services (such as K-12 education) will be provided and who (state or local governments and taxes) will pay for them. Hawaii is notable in that it is the only state that assumes nearly all the costs of K-12 education at the state level. In other states, this is generally more of a shared state and local funding responsibility.

Recent changes made by the Hawaii legislature make the State's tax structure more progressive.

Across the country, the tax that is most frequently identified as a progressive tax is the individual income tax. Most states have a progressive individual income tax, with higher marginal tax rates applying as income increases.

The individual income tax is also often used as a method to ameliorate regressive features of the overall state tax structure. That is the case in Hawaii, where a refundable credit is available to individual income taxpayers who are renters and/or pay the GET.

HB209, currently awaiting Governor Ige's signature, enacts changes to income tax rates after December 31, 2017 that increase the rate for high income taxpayers. This, of course, makes the Hawaii individual income tax more progressive and raises additional tax revenue. Additionally, the bill establishes a state earned income tax credit and repeals the sunset date for amendments made to the refundable food/excise tax credit. These are also progressive features, which are essentially paid for by the higher income tax rates for high income taxpayers.

Changes to the GET that generally increase revenue would mostly be considered regressive.

In general, excise taxes apply without regard to the taxpayer's ability to pay the tax. Additionally, the GET is broader based than many similar types of excise taxes (which, for state sales and use taxes, often exempt 'necessities' like food, utility payments and medical services that are taxed by the GET). Of course, part of the reason that the GET has been kept at relatively low rates (compared, again to other state sales and use taxes) is because the base is so broad.

Other possible measures to raise revenue are considered in the following section, in terms of their impact on regressivity.

Ways to Generate More Revenue through New and Existing Sources, and through Improved Compliance with Hawaii's Tax Laws

In general there are four ways to raise additional tax revenue:

1. Create a new tax
2. Expand the base of an existing tax
3. Increase the rate of an existing tax
4. Increase taxpayer compliance of an existing tax

There are advantages and disadvantages to each approach. From a tax burden/regressivity perspective, the final approach (increased compliance) has the benefit of not imposing an additional tax or increasing an existing tax's base. On the other hand, compliance rates on most major taxes are already relatively high (and further increases can be costly from an administrative perspective). As a result, tax policy changes usually focus on the first three alternatives.

The additional revenue required to fund the annual required contribution to the Employer-Union Benefits Trust Fund (EUTF) is $535 million in 2019, growing to $703 million by 2023.

In July 2013, Act 268 was signed into law. In addition to establishing the EUTF Task Force to examine further steps to address unfunded liability, the law requires the State to pay additional amounts toward reducing the unfunded liability until 2019, when 100 percent of the annual required contribution must be paid. Commencing in 2019, GET revenues will be used to fund any difference between the annual required contribution (ARC) and the payment made by the State.[4]

With this change in mind, the project team's charge, as outlined in the scope of the project, is to determine:

"how much revenue will be needed to maintain the current level of government services (tax adequacy), including unfunded or underfunded liabilities for pension and health care benefits for retired state workers...the study can take as a goal raising enough additional revenue to fund the annual required contribution (ARC) to the Employer-Union Benefits Trust Fund."

The State's 2017-2019 budget includes estimated payments of $555.9 million each year from 2017-2021.[5] Assuming that amount would have been held flat through 2023 had Act 268 not been signed into law, the additional revenue required is $535 million in 2019, increasing to more than $700 million by 2023, as shown in Table 3.

Table 3: EUTF Retiree Health Care Plan Annual Required Contribution (in Millions)

	2019	2020	2021	2022	2023
Annual Required Contribution	$1,091.0	$1,128.7	$1,173.7	$1,215.2	$1,258.5
Budgeted Contribution	$555.9	$555.9	$555.9	$555.9	$555.9
Additional Revenue Required	**$535.1**	**$572.8**	**$617.8**	**$659.3**	**$702.6**

Sources: July 1 Actuarial Valuation, State of Hawaii Budget

[4] State of Hawaii 2016 CAFR
[5] Per 2017-2019 Pension and Other Post-Employment Benefits Liability Table (Budget Appendix 6)

The project team's proposed revenue initiatives generally align with the goal of making the State's tax structure less regressive.

An oft-quoted explanation of tax policy was provided by the former French Finance Minister, Jean-Baptiste Colbert: "The art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing." It goes without saying that any additional tax revenue is going to come with a 'deadweight loss' that will have some negative economic impacts.

As previously noted, some taxes in their application may be regressive while the structure as a whole is progressive or proportional. A well-balanced tax structure applies a variety of taxes based on consumption, income and wealth. This helps create a more stable structure than one that relies on only one primary tax source or one type of tax. It also spreads the impact throughout the economy.

The following are possible revenue raising measures, with a brief description of their overall impact on general tax policy and state tax structure. All revenue estimates are preliminary and subject to revision.

In many instances, the following alternatives were also explored in PFM's report to the 2012 Commission. However, the project team has also chosen to not analyze some of the 2012 alternatives, primarily because of concerns about regressivity.

Excise Tax Alternatives

- **Increase cigarette/tobacco tax** to $4.00 per pack (currently $3.20). This is an excise tax that is applied in all 50 states. It is considered regressive but is also a 'user tax' that has been shown to decrease consumption, particularly among younger smokers. Estimated annual impact: $20-25 million.
- **Increase beer/spirits/wine tax** by 10 percent. This is an excise tax applied in all states with a licensed retail market system. It is considered regressive as generally applied (as a tax on volume) but is also a 'user tax' that has been shown to decrease consumption. Estimated annual impact: $5 million.
- **Increase car rental tax** to $4.00 per day (currently $3.00). This is an excise tax applied in all 50 states. A significant portion of the tax is exported to visitors. Estimated annual impact: $18 million.[6]
- **Sugary beverage tax** of $0.02 per ounce.[7] This is an excise tax applied in only a few jurisdictions, most notably the City of Philadelphia (1.5 cents per ounce). It is considered a regressive tax but may have health benefits, which is currently a subject of debate. Estimated annual impact: $50 million.
- **Tax medical marijuana** at 15 percent. This is an excise tax and considered somewhat regressive. Estimated annual impact: $8-12 million.[8]
- **Institute a carbon tax**. No state has instituted this form of tax, and there is some debate as to whether it is a significantly regressive tax. However, there are positive environmental impacts. Estimated annual impact: up to $365 million, depending on the nature and extent of the tax.
- **Institute a vapor/e-cigarette tax.** Seven states and Washington DC currently impose a tax on e-cigarettes, and more than 20 others have contemplated legislation. Estimated annual impact: Less than $5 million.

[6] Revenues from car rental taxes are deposited into a special revenue fund.
[7] Estimate includes a non-compliance adjustment of 20 percent.
[8] Estimate is incremental revenue resulting from taxation at 15 percent instead of 4.5 percent.

Transient Accommodations and Timeshare Occupancy Tax Alternatives

- **Increase the TAT** to 10.0 percent (currently 9.25 percent after expiration of reduction in 2015). An opportunity to export additional revenue. Estimated annual impact: $20-25 million.
- **Begin collecting TAT on resort fees.** An opportunity to export additional revenue. Estimated annual impact: $20-30 million.
- **Begin imposing TOT on Airbnb rentals.** An opportunity to export additional revenue. Estimated annual impact: $5-10 million.

Income Tax Alternatives

- **Move to a single 9 percent corporate net income tax rate.** Who pays corporate income tax is a subject of considerable debate. The following corporate income tax initiatives all raise revenue, but the question of who pays for them is subject to debate. Estimated annual impact: $30 million.
- **Increase corporate net income taxes** by 50 percent. Estimated annual impact: $42 million.
- **Increase corporate net gains capital rate** to 5.0 percent (currently 4.0 percent). Estimated annual impact: $5 million.
- **Eliminate exemption for pension income** over $25,000. Most states provide for some taxation of pension income; with the provision to exempt the first $25,000 of pension income, this would be considered a progressive tax feature. Estimated annual impact: $46 million.
- **Eliminate exemption for foreign pension income** over $25,000. Most states provide for some taxation of pension income; with the provision to exempt the first $25,000 of foreign (out of state) pension income, this would be considered a progressive tax feature. Estimated annual impact: TBD.
- **Implement a personal income tax rate recapture.** This would implement a top-rate recapture mechanism for high income taxpayers. In this approach, for taxpayers with taxable income above a certain level, which could be $100,000, the benefit of lower brackets would be phased out, and when income reaches $150,000, the taxpayer would pay the top rate on the first dollar of income. This would be a highly progressive feature. Estimated annual impact: TBD.

Property Tax Alternatives

- **Eliminate the Real Estate Tax Deduction.** This effectively reduces property tax burden by providing a deduction against income taxes. To the extent the property tax is regressive, this would increase regressivity. However, for individuals with no state income tax liability (or who do not itemize), there would be no additional tax implications from this change. As a result, it would likely be a progressive feature. Estimated annual impact: $30 million.
- **Shift certain K-12 education expenses to property taxes to lower State costs.** Because the State Constitution prohibits a state property tax, the only mechanism to increase the use of this tax (and thus reduce the use of other major taxes) would be to shift expenditures from the state to local governments. As mentioned previously, Hawaii is the only state that fully assumes the operational costs of K-12 education at the state level. Of course, any shift to property tax from more progressive taxes (such as the income tax) would be regressive – however, it would be possible to ameliorate some of these impacts through expanding refundable credits such as the GET/renter's credit. Under this initiative, the State could select specific expenditures to shift. As an example, it could shift the DOE's Public Libraries general fund operating costs to property taxes. Estimated annual impact: $35 million.

Compliance Alternatives

Compliance initiatives are important, because they can increase voluntary compliance and create greater confidence in the system by those taxpayers (who are the vast majority of Hawaiians) who pay their taxes in full and on time.

There are notable instances across the country where taxpayer compliance can be a significant issue for the amount of tax revenue that can be generated. There are taxes where 'black markets' are fostered because of taxes owed on specific products, such as cigarettes. More recently, concerns about payment of sales and use taxes owed because of online purchases has become a prominent issue for States – and also for Hawaii as it relates to the GET.

- **Increase collection of taxes related to e-commerce/online retail taxes.** This is not a new tax – it is a method of enhancing collection of an existing tax. An area with significant legislative action across the country, although the constitutionality of some recently enacted state laws is being challenged in several state and federal court cases. Estimated annual impact: $30-40 million.

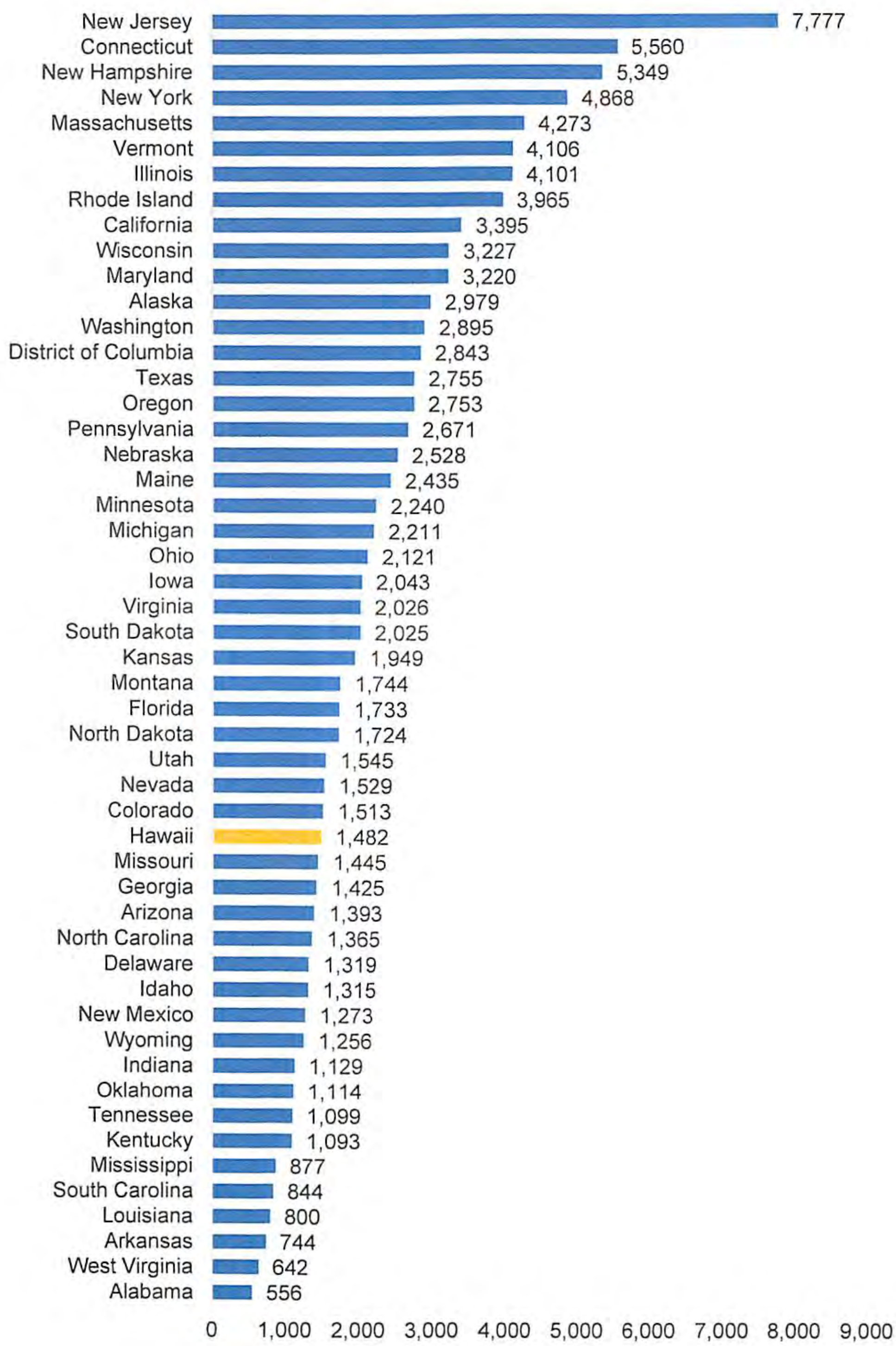
The State is in the process of implementing a data warehouse; in other states, this has provided opportunities to improve compliance and collect additional revenue. These include:

- **Tax gap programs.** Several states have increased revenue collections through use of sophisticated software connected with a fully functional data warehouse.
- **Additional audit programs.** Most studies suggest that additional audit staff is cost effective, both in finding additional tax revenue and in spurring additional voluntary compliance.

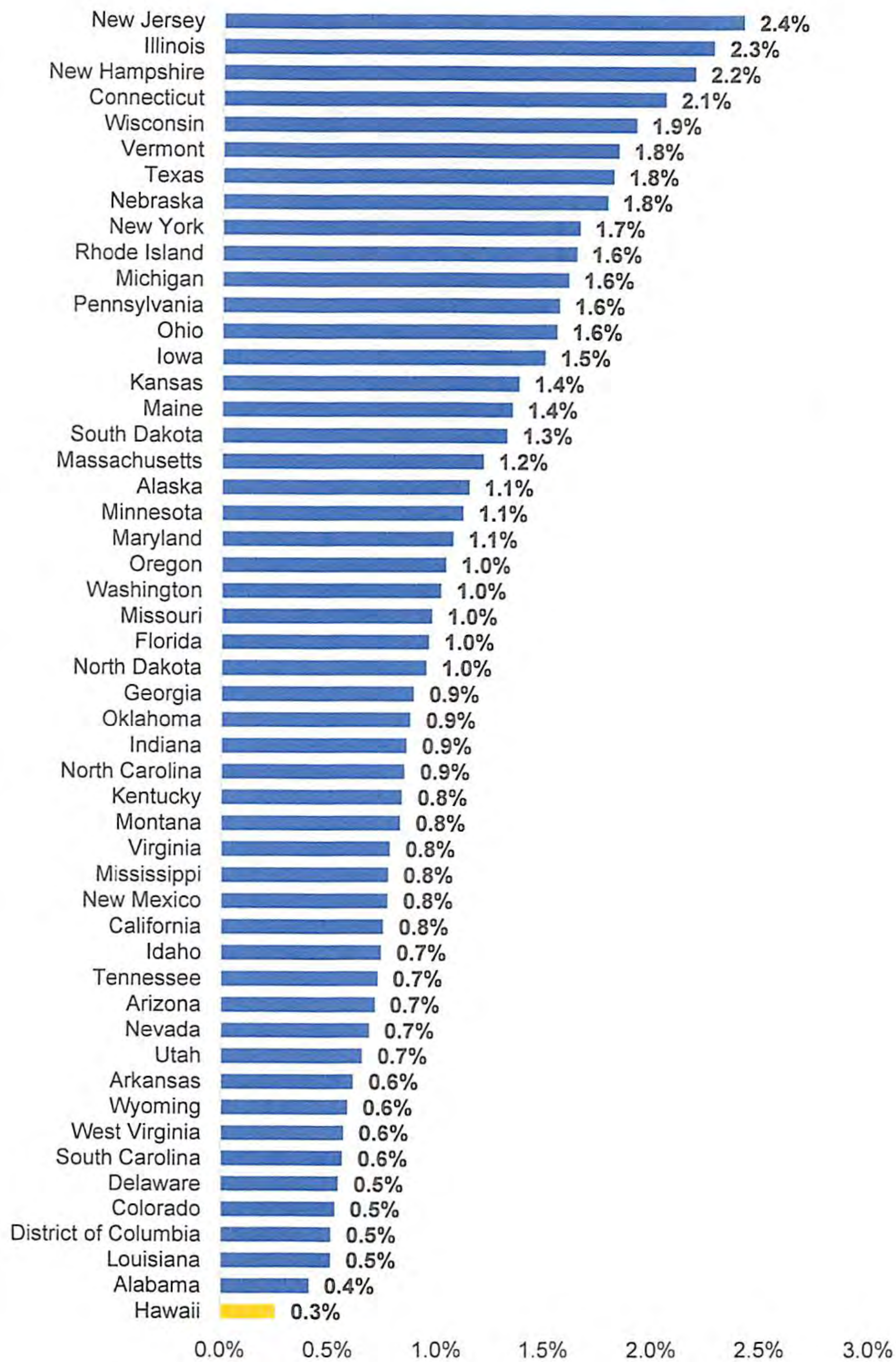
Summary

PFM looks forward to discussing these high level findings with the Commission. The PFM project team is beginning the process of creating the final report detailed outline and refining analysis of the revenue measures that are under discussion. The project team is prepared to complete the analysis and provide the written draft report within the timeframe provided to the Commission.

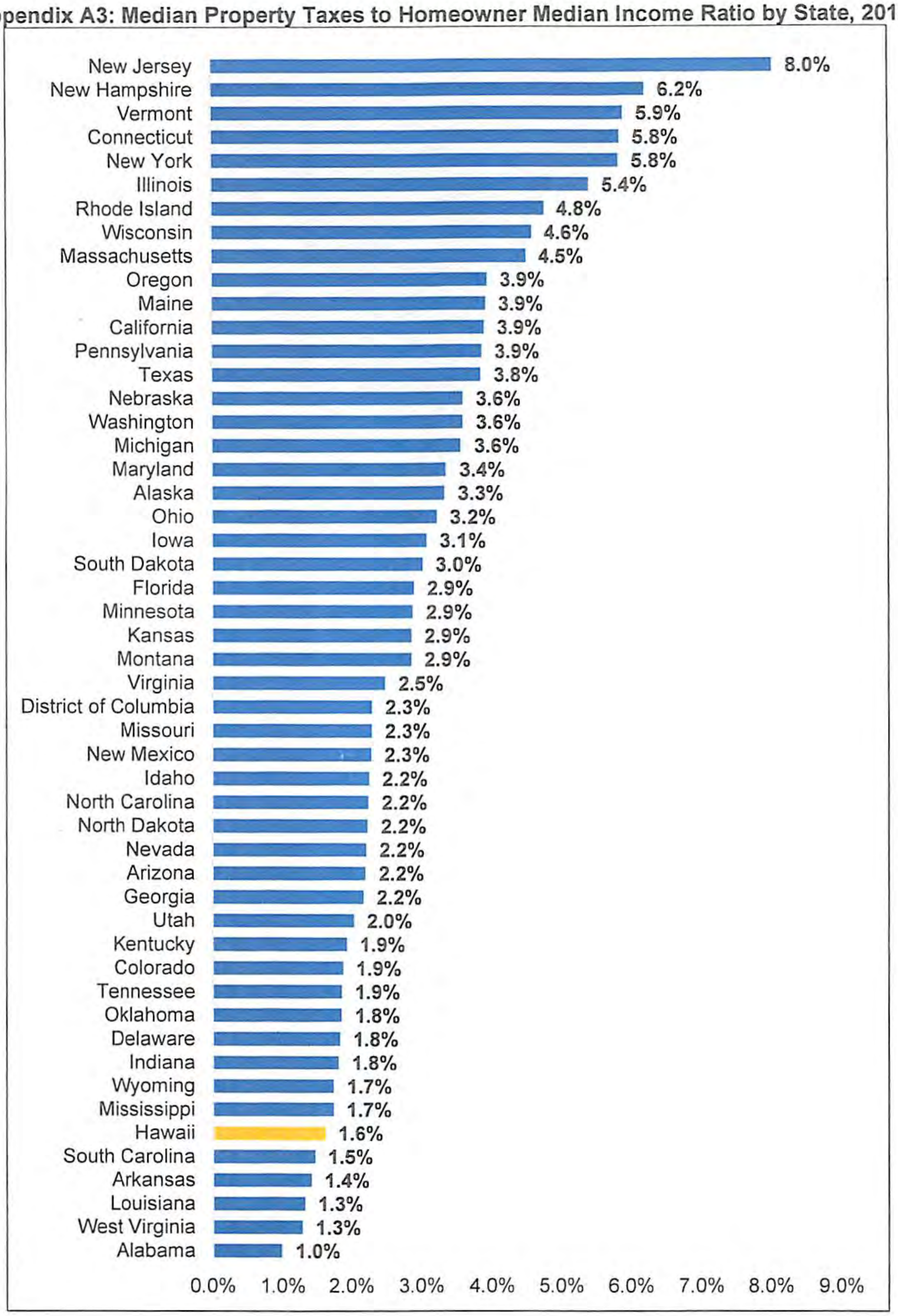
Appendix A1: Median Property Taxed Paid by State, 2015



Appendix A2: Property Tax to Home Value Ratio by State, 2015



Appendix A3: Median Property Taxes to Homeowner Median Income Ratio by State, 2015



CITY COUNCIL
CITY AND COUNTY OF HONOLULU
HONOLULU, HAWAII

No. 17-208

RESOLUTION

REQUESTING THE SUPPORT OF THE HAWAII STATE ASSOCIATION OF COUNTIES AND ITS EXECUTIVE COMMITTEE FOR THE HAWAII STATE LEGISLATURE'S APPROVAL OF AN EXTENSION OF THE HONOLULU GENERAL EXCISE AND USE TAX SURCHARGE AS NECESSARY TO ENABLE THE COMPLETION OF THE MINIMUM OPERABLE SEGMENT OF THE HONOLULU HIGH-CAPACITY TRANSIT CORRIDOR PROJECT.

WHEREAS, recent revenue and expenditure projections for the Minimum Operable Segment ("MOS") (from East Kapolei to Ala Moana Center) of the Honolulu High-Capacity Transit Corridor Project ("Rail Project") indicate that an additional $2.847 billion in revenues will be needed for the City and County of Honolulu ("City") to complete the MOS of the Rail Project; and

WHEREAS, Section 2 of Act 247, Session Laws of Hawaii ("SLH"), Regular Session of 2005, codified as Hawaii Revised Statutes ("HRS") Section 46-16.8, authorized the Honolulu City Council to establish a one-half percent Honolulu general excise and use tax surcharge ("GET surcharge") to fund the operating and capital costs of the locally preferred alternative ("LPA") for the Rail Project and related improvements to comply with the Americans with Disabilities Act ("ADA"); and

WHEREAS, the LPA would connect West Kapolei with the University of Hawaii at Manoa, going through downtown Honolulu and skirting the Daniel K. Inouye International Airport and the Ala Moana Center; and

WHEREAS, pursuant to Act 247, the Honolulu City Council enacted Ordinance 05-07, which approved the GET surcharge, effective on January 1, 2007, and which was to be repealed on December 31, 2022; and

WHEREAS, the MOS, as established by Resolution 08-261, calls for a 21-mile alignment connecting East Kapolei with the Ala Moana Center with a total of 20 transit stations; and

WHEREAS, in the Final Financial Plan for the Full Funding Grant Agreement between the City and the Federal Transit Administration, dated June 2012, the estimated cost for the Rail Project was $5.163 billion; and

WHEREAS, among other things, Section 3 of Act 240, SLH, Regular Session of 2015, amended HRS Section 46-16.8 to authorize the City to implement a five-year extension of the GET surcharge from December 31, 2022, to December 31, 2027; and

RESOLUTION

WHEREAS, on October 15, 2015, the Honolulu Authority for Rapid Transportation ("HART"), the agency charged with construction of the Rail Project, projected that the cost for the Rail Project would be $6.178 billion; and

WHEREAS, the Honolulu City Council thereafter enacted Ordinance 16-1 which, among other things, implemented the five-year extension of the GET surcharge to December 31, 2027; and

WHEREAS, recent discussions with officials of the Federal Transit Administration have indicated that the City may be required to repay the federal government for its financial contributions to the Rail Project to date if construction of the MOS is not completed as agreed upon in the Full Funding Grant Agreement; and

WHEREAS, on November 16, 2016, the Honolulu City Council passed Resolution 16-248, CD1, which reaffirmed the Honolulu City Council's support of extending the GET surcharge in order to complete the MOS of the Rail Project to Ala Moana Center; and

WHEREAS, on December 1, 2016, HART submitted the Draft Update of the Financial Plan for the Full Funding Grant Agreement, which stated that the estimated cost, with additional funding for the financing required to complete the MOS for the Rail Project, is approximately $9.5 billion, which would result in a shortfall of $2.847 billion; and

WHEREAS, during the 2017 regular legislative session, the Hawaii State Legislature ("Legislature") considered Senate Bill No. 1183 and various drafts thereof, which specified a number of funding sources to assist the City in its completion of the MOS and included proposals to further extend the GET surcharge or increase the transient accommodations tax ("TAT") by 30 percent, none of which was ultimately adopted by the Legislature; and

WHEREAS, it is anticipated that a special session of the Legislature will be held within the coming months to consider funding options to assist the City with its completion of the MOS; and

WHEREAS, the TAT is a much more volatile revenue source than the GET surcharge, thereby making it more difficult for HART to engage in any long-term planning and financing for the Rail Project; and

WHEREAS, raising the TAT would put the entire State, including all neighbor island counties, at a competitive disadvantage in regards to tourism, and could result in a ripple effect that may negatively impact small businesses in all of Hawaii's counties; and

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HONOLULU, HAWAII

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RESOLUTION

WHEREAS, to remain competitive, hotels may choose not to pass on the increased tax to guests and instead absorb the costs, which could lead to staffing cutbacks; and

WHEREAS, the GET surcharge is a comparatively stable funding source that is imposed only on business operations in the City, and would allow HART to engage in long-term planning for the Rail Project; now, therefore,

BE IT RESOLVED by the Council of the City and County of Honolulu that it respectfully requests the support of the Hawaii State Association of Counties and its Executive Committee for the Hawaii State Legislature's approval of an extension of the Honolulu General Excise and Use Tax Surcharge as necessary to enable the completion of the Minimum Operable Segment of the Honolulu High-Capacity Transit Corridor Project to Ala Moana Center; and

BE IT FINALLY RESOLVED that copies of this Resolution be transmitted to each member of the Hawaii State Association of Counties Executive Committee.

INTRODUCED BY:

H. [signature]

DATE OF INTRODUCTION:

AUG - 2 2017

Honolulu, Hawaii

Councilmembers