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March 21, 2017

TO: The Honorable Scott Y. Nishimoto, Chair  
House Committee on Judiciary

FROM: Mike White  
Council Chair 

SUBJECT: **HEARING OF MARCH 22, 2017; TESTIMONY IN OPPOSITION TO  
SB 686, SD 2, RELATING TO EDUCATION FUNDING**

Thank you for the opportunity to testify in **opposition** to this measure. The purpose of this bill is to establish an education surcharge on residential investment properties and visitor accommodations for the purpose of funding public education.

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

I submit this testimony also in opposition to SB 683 SD 2, which would amend the Constitution of the State of Hawaii to facilitate the establishment of the surcharge.

I **oppose** this measure for the following reasons:

1. Although the Department of Education receives almost 20 percent of the entire budget of the State of Hawaii, the administrators, teachers, students and advocates of this bill have legitimate reasons to demand more funding to provide quality education for our keiki. But the proposed measure before you is flawed, which is why I implore the legislature to defer this bill.
2. Real property taxes are counties' primary and largest source of revenue to fund county programs. The counties this year are anticipating substantial salary adjustments from all bargaining units, which we are obligated to fund regardless of our position. Raising property taxes is our only reasonable option to balance our budget.
3. Increasing costs of visitor-related programs like transportation, sewer and water, fire, police, and parks maintenance continue to be a challenge because the counties don't receive their fair share of the transient accommodations tax. To pay for these services, the residents will continue to be overly burdened and face potential increases in real property taxes.

4. In addition to the issues mentioned above, this measure is problematic because it applies to “residential investment properties” a definition which is unclear. There is no doubt that landlords will pass on the new tax to renters. This could not come at a worse time when many of our local residents are struggling to keep up with escalating housing costs amid a statewide decline in affordable housing inventory. The unintended consequences of this bill to our real estate industry are enormous and would serve as a disincentive for investors to invest in our state.
5. The bill mandates the counties to administer and collect the property surcharge for education without identifying how the counties are to fund this mandate. Have the proponents of this measure given any thought to how the new tax will be administered and who will bear those costs? Without a clear implementation plan and associated funding, the risk is that the burden will fall solely upon county residents. We urge you to defer this bill and consider the magnitude of its impact.
6. In many mainland communities, local real estate taxes are used to support local schools. The communities decide for themselves what they can afford and tax their residents accordingly. In Hawaii, funding and administration of schools are handled centrally by the state with little to no input from the counties or local residents. The premise of this bill that requires the counties to fund schools without having a greater say in the way that monies are spent ignores the importance of the community’s right to guide education decisions and smacks of paternalism.

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