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Testimony PEA-79

CONSTITUTIONAL AMENDMENT TO ALLOW A SURCHARGE ON REAL PROPERTY TAXES TO FUND PUBLIC EDUCATION

This past session the State Legislature passed Senate Bill 2922 SD1 HD1. This bill places the following question onto this November's ballot "Shall the legislature be authorized to establish, as provided by law, a surcharge on investment real property to be used to support public education?"

The Hawaii State Constitution gives power and duty to levy real property taxes solely to the Counties. It's a fundamental piece of our Counties' budget process and where a majority of revenues are produced. Currently Maui County generates 77% of its income from real property taxes. By allowing the State the ability to place an additional surcharge tax increase on real property the State Legislature will now have power to dip into the Counties' largest source of revenue as well their own.

This ballot initiative is not just another simple property tax hike. This is a fundamental shift in the way we tax our entire community and everyone will be affected. Should this Constitutional Amendment pass, the State Legislature will be able to create new rules and new higher taxes **whenever they want** more tax income. This leaves many potentially detrimental unintended consequences and also leaves many questions.

Will this tax surcharge increase the \$2 billion Department of Education (DOE) budget?

This Constitutional change has no provisions to guarantee that the tax surcharge will be used to increase the DOE's Budget. When asked about this loophole, the President of the Hawaii State Teacher's Association, Corey Rosenlee said "It's my deepest darkest fear."

Can we guarantee this tax increase will go to the school level or increase teacher's pay?

Mr. Rosenlee admitted, "We can't."

How much will my rent go up as a result of this tax surcharge increase?

This surcharge increase is a pass-through cost that will be paid by renters in the form of higher rents. The amount of tax increase levied by the State Legislature - rent increase - will be determined each and every year. To make matters worse, there are no provisions to limit the amount the Legislature can increase the tax surcharge in any given year.

Does this tax surcharge increase only apply to properties over \$1 million?

No. There is no value threshold of \$1m and could apply to any investment property of any value.

What is 'investment real property'?

The IRS defines investment property as any property that has been purchased with the intention of earning a return on the investment. In other words, the tax can be broadly read to apply to any and

all classes of real property such as residential, agriculture, commercial, industrial, rental, apartment, hotel and even homeowner as long as the landowner intends to earn a return on the property. Unfortunately, the people that can least afford a rent increase - multi-family rental properties - will be hit the hardest by this tax surcharge increase.

How much additional tax is the State looking to collect?

The current DOE budget is \$2 billion which makes up roughly 20% of the State budget. However, the targeted yearly increase over and above the current tax was stated by Mr. Rosenlee “We can raise over **\$500 million each year** for education...”

Does this tax surcharge increase only apply to out-of-state owners?

No. This proposed constitutional amendment is broadly written and can apply to both local and out-of-state owners.

How will this tax surcharge increase affect the Counties'?

Obviously this is a play by the State to acquire additional tax revenue by dipping into and **eroding the Counties' largest source of income.** However, this proposal also completely undermines taxing authority of Counties which **negatively affects the credit rating for all Counties.** Moody's bond rating service has stated that the loss of local control in tax rate setting will result in higher interest rates for County issued bonds.

How does this affect me and my local economy?

Just like you and me, the better your credit rating then the lower interest you pay. The Counties leverage huge sums of money to build things like parks and infrastructure. By damaging the Counties' credit **all of these community benefits will cost more for the taxpayers.** Additionally, by pilfering property tax revenues there is devaluation in the tax base which would force the Counties to **increase their taxes and fees in other areas** creating a situation where everything costs more.

How much will this tax surcharge increase affect Kuleana lands?

It has the potential of placing a greater burden on Kuleana family land owners that have passed these properties down to through multiple generations. These Hawaiian families could be stuck with generating **additional income somewhere else to pay for the tax surcharge** increase on their family lands.

While Hawaii REALTORS® wholeheartedly support funding for public education; we are deeply concerned that an additional property tax for investment property will add to **the cost of affordable housing and rentals.** According to the National Low Income Housing Coalition, Hawaii ranks last in the country in closing the affordable rentals-wage gap. Given Hawaii's affordable housing and homelessness crisis, our community needs to work together on solutions that help to reduce rather than raise the cost of housing.