


PEA Committee

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To: PEA Committee
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Subject: PEA-79
Attachments: HSAC_6-22-18 SB2922_1.pptx



“Shall the legislature
be authorized to establish,
as provided by law,
a surcharge on investment
real property to be used to
support public education?”

S.B. No. 2922, S.D. 1, H.D. 1

Senate Bill 2922 SD1 HD1

- The Bill
- The Good
- The Reality
- The Tax



The Bill

Senate Bill 2922 SD1 HD1

Proposes amendments to Articles VIII and X of the Constitution of the State of Hawaii to authorize the legislature to establish a surcharge to increase funding for public education.

Article VIII, section 3, of the Constitution of the State of Hawaii is amended to read as follows:

"TAXATION AND FINANCE

Section 3. The taxing power shall be reserved to the State, except so much thereof as may be delegated by the legislature to the political subdivisions, and except that all functions, powers and duties relating to the taxation of real property shall be exercised exclusively by the counties, with the exception of the county of Kalawao[-]; provided that the legislature may establish, as provided by law, a surcharge on investment real property. The legislature shall have the power to apportion state revenues among the several political subdivisions."

The Bill

Senate Bill 2922 SD1 HD1 - continued

Article X, section 1, of the Constitution of the State of Hawaii is amended to read as follows:

"PUBLIC EDUCATION

Section 1. The State shall provide for the establishment, support and control of a statewide system of public schools free from sectarian control, a state university, public libraries and such other educational institutions as may be deemed desirable, including physical facilities therefor. There shall be no discrimination in public educational institutions because of race, religion, sex or ancestry; nor shall public funds be appropriated for the support or benefit of any sectarian or nonsectarian private educational institution, except that proceeds of special purpose revenue bonds authorized or issued under section 12 of Article VII may be appropriated to finance or assist:

1. Not-for-profit corporations that provide early childhood education and care facilities serving the general public; and
2. Not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities.

Funding of public education shall be determined by the legislature; provided that revenues derived from a surcharge on investment real property pursuant to section 3 of article VIII shall be used to support public education."

Two sides to every story

There may be five sides to this bill...



State perspective

Counties perspective

Or is it really as simple as...



Money – where the funding comes from

Kids – who need the funding now

The Good

- Do Hawaii's keiki deserve a better education?
- Do Hawaii's teachers deserve better pay?
- For the majority of voters – this is the question they will be answering on the ballot this fall.

From HSTA website:

Constitutional amendment. If approved by voters, it would give the state the power to create a investment real property surcharge, bringing **hundreds of millions of dollars** into the public school system. PASSED. It will be on the November Ballot!! (SB2922)



The Reality

- Should the State be allowed to start adding a surcharge (additional tax) onto County real property taxes for State programs?
- General Excise (GE) Tax vs Real Property Tax vs Transient Accommodations Tax (TAT) vs State Income Tax
- How much more in revenue is the Department of Education requesting?

Taxpayer 1025

DATE _____

PAY TO THE ORDER OF _____ \$ _____

_____ DOLLARS

MEMO _____

⑆000000000⑆ ⑆000000000⑆ 1025

State of Hawaii's One Public School System

The entire public school system in the State of Hawaii is under one school district and the reason county level real property taxes are **not** used to fund public school education.

Hawaii's single school district is primarily funded via the state legislature and administered by the state's Department of Education, **without** any intervention or input by any county level agency.

The Tax

- Powers and duties relating to the taxation of real property shall be exercised exclusively by the counties.
- Main source of general fund revenue for Counties:
 - Kauai County – 84%
 - Hawaii County – 76%
 - City & County of Honolulu – 71%
 - Maui County – 77%
- What happens when the real estate market enters a recessionary period?

Tax Rates

Tax Rates for Tax Year 2017-2018

Land Class	Maui	Honolulu*	Hawaii	Kauai*
Residential	\$5.54	\$3.50	\$11.10	\$6.05
Res A Tier 1 – 1 st \$1M value		\$4.50		
Res A Tier 2 – In Excess of \$1M		\$9.00		
Apartment	\$6.32		\$11.70	
Commercial	\$7.28	\$12.40	\$10.70	\$8.10
Industrial	\$7.49	\$12.40	\$10.70	\$8.10
Agricultural or Native Forests	\$6.01	\$5.70	\$9.35	\$6.75
Conservation	\$6.37	\$5.70	\$11.55	\$6.75
Hotel and Resort	\$9.37	\$12.90	\$11.55	\$10.85
Homeowner	\$2.86		\$6.15	\$3.05
Timeshare	\$15.43			
Commercialized Res/Home Use	\$4.56			\$5.05
Vacation Rental				\$8.85
Vacant Agricultural		\$8.50		
Public Service		\$0.00		
Residential Investor				\$7.05
Affordable Housing			\$6.15	

*Kauai and Honolulu have a single rate, Maui and Hawaii have land and building rates which have traditionally been the same

Minimum Tax

How does it work with the Minimum Real Property tax at each county as all Counties differ?

For example – Hawaii County is \$200 per year except if the property owner receives a home exemption or total disabled veteran exemption resulting in the minimum tax, and the assessed value of the improvements is less than or equal to \$75,000, the then minimum tax shall be as follows:

\$50	Property with improvements assessed up to \$25,000
\$100	Property with improvements assessed at \$25,001 to \$50,000
\$150	Property with improvements assessed at \$50,001 to \$75,000

The minimum tax for all properties with a market value of \$500 or less is now \$0.

Impact on Bond Rating

Bond Rating Agency	Honolulu	Maui	Kauai	Hawaii
Fitch	AA+	AA+	AA	AA+
Moody's	Aa1	Aa1	Aa2	Aa2
Standard and Poor		AA+		

Bond raters consider the legal authority to modify property tax rates by each county a significant factor to elevated bond ratings. It bodes well that **each county has sole taxing power of real property taxes** and have demonstrated a willingness to increase rates and raise taxes in order to pay bondholders.

SB2922 not only threatens the county's ability to freely increase revenues which will adversely affect bond ratings, but core county services will be compromised due to surcharge considerations.

Other Concerns

- How would tax sales and liens be handled
- Paying counties 5-10% (minimum) to administer adds another layer of bureaucracy
- Difficulty for Counties to raise monies (rates) during economic downturns
- Loss of local control in tax rate setting will result in higher interest rates for County issued bonds
- Risk of increased delinquencies and foreclosures
- Additional property taxes will not stay within the community where they are raised
- Potential to have an adverse impact on property values – eroding future tax base
- Ignores (or exempts) majority of property owners that actually utilize public schools
- Does not have a limit on the amount of surcharge that can be added
- Does not account for variation of existing tax rates between Counties by tax class
- Impairs the Counties' abilities to pay for unfunded State or Federal mandates
- Makes the State a third-party to tax appeals
- Likelihood of higher rents to cover increased property taxes
- Increased development - forcing vacant land to become income producing properties
- How will partial payments be applied?

Department of Education (DOE)- Funding and Spending

	FY18	FY17	FY16	FY15
Funding * (billion)	\$1.98	\$1.93	\$1.90	\$1.77
\$ per-pupil **	-	-	\$13,748	\$12,855
National Rank **	-	-	15th	17th

* DOE annual published operating budget

** U.S Census Bureau, Public Education Finances

Despite a nearly \$2 billion annual budget and upper tier funding per-pupil national ranking, the Hawaii State Teachers Association (HSTA) claims additional public education funding is needed from a surcharge of real property taxes.

HSTA's justification to pursue this surcharge and recent concerns expressed by the Education Institute of Hawaii merits an examination of DOE expenditures. An audit may expose inappropriate allocations and recommend changes toward better suited programs such as teacher salaries.

Wrap Up

- Keiki perspective



- Department of Education perspective

- Teacher to Principal to School District

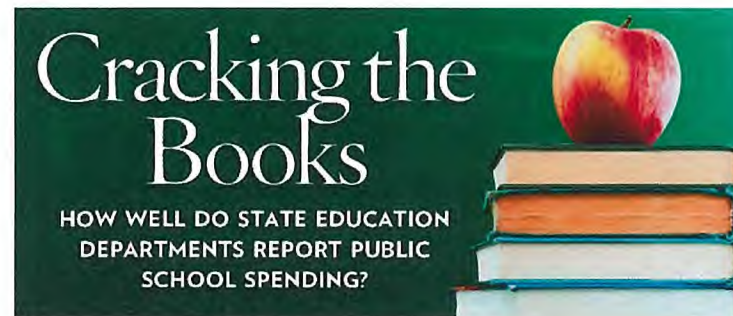


- State of Hawaii perspective

- County perspective

- Real Property Tax

- Taxpayer perspective





Questions ?

*Thank
You*

for letting us share this sensitive topic with each of you today.