OFFICE OF THE MAYOR

DEREK S.K. KAWAKAMI, MAYOR
REIKO MATSUYAMA, MANAGING DIRECTOR

Testimony of Derek S.K. Kawakami
Mayor
County of Kauaʻi

Before a joint hearing of the
Senate Committee on Ways and Means
And the **House Committee on Finance**

Tuesday, January 21, 2025
1:00 p.m.
State Capitol Auditorium and Videoconference

The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

The Honorable Kyle T. Yamashita, Chair
and Members of the House Committee on Finance:

Thank you for the opportunity to present testimony before this joint committee at the start of the 2025 Legislative Session.

General Fund Revenue

Real Property Tax - Our real property tax revenue outlook remains stable as we continue to see unbroken value growth since 2013. We are estimating a modest increase of 2% in our values for Fiscal Year 2026, putting us in a position to maintain stable revenue collection for this upcoming budget.

Last year, we introduced some significant real property tax reform where we added assessed value and tax rate tiers for the Non-Owner-Occupied Residential and Vacation Rental tax classifications as well as a tax rate increase for the Hotel & Resort tax classification in our FY25 budget.

2023 (FY24) Tax Classifications	Count	Tax Rate	2024 (FY25) Tax Classifications	Count	Tax Rate	Addn'l Taxes
Residential	7,439	$5.45	**Non-Owner-Occupied Residential**			
			Tier 1 <= $1,300,000	6,458	$5.45	$0
			Tier 2 > $1,300,000 to $2,000,000	950	$6.05	$566,138
			Tier 3 > $2,000,000	955	$9.40	$9,029,404
			Subtotal	8,363		$9,595,542
Vacation Rental	3,799	$9.85	**Vacation Rental**			
			Tier 1 <= $1,000,000	1,517	$11.30	$4,892,594
			Tier 2 > $1,000,000 to $2,500,000	1,883	$11.75	$2,937,566
			Tier 3 > $2,500,000	398	$12.20	$2,160,880
			Subtotal	3,798		$9,991,039
Hotel & Resort	3,532	$10.85	**Hotel & Resort**	3,569	$11.75	$3,494,526
TOTAL	14,770		**TOTAL**	15,730		**$23,081,108**

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By tiering the Non-Owner-Occupied Residential and Vacation Rental tax classifications, we generated additional real property tax revenues of $9.6M and $10M, respectively. The FY24 flat tax rates for these two categories saw rate increases ranging from 11.0% to 72.5% for FY25, although only the incremental portions of the assessed values falling within the tier limits were subject to these higher rates. Our Hotel & Resort tax rate also increased 8.3%, generating an additional $3.5M in tax revenue. **All the additional revenue generated from these structural rate changes was allocated to the Housing Agency to support affordable housing initiatives.**

Tax Classification	Market Values		Net Taxable Values		Real Property Tax Liability	
	Median	Average	Median	Average	Median	Average
Non-Owner-Occupied Residential	$ 814,600	$ 1,244,671	$ 799,300	$ 1,197,709	$ 4,356.19	$ 6,527.52
Vacation Rental	$ 1,141,000	$ 1,546,621	$ 1,141,000	$ 1,540,633	$ 12,956.75	$ 17,652.44
Commercial	$ 894,700	$ 2,341,524	$ 710,100	$ 1,997,354	$ 5,751.81	$ 16,178.57
Industrial	$ 1,040,600	$ 1,909,424	$ 967,400	$ 1,591,605	$ 7,835.94	$ 12,892.00
Agriculture	$ 624,000	$ 1,225,204	$ 297,500	$ 730,968	$ 2,008.13	$ 4,934.04
Conservation	$ 279,000	$ 933,297	$ 51,500	$ 630,092	$ 347.63	$ 4,253.12
Hotel & Resort	$ 677,900	$ 1,120,514	$ 677,900	$ 1,124,876	$ 7,965.33	$ 13,217.29
Owner-Occupied	$ 853,700	$ 1,050,989	$ 387,100	$ 529,591	$ 1,002.59	$ 1,371.64
Owner-Occupied Mixed-Use	$ 1,068,900	$ 1,325,876	$ 518,700	$ 707,634	$ 2,619.44	$ 3,573.55

Our tax structure continues to support owner-occupants, affordable long-term rentals, and agricultural activities by providing reduced assessments. Through our 3% assessment cap and large homeowner exemption, the Owner-Occupied tax class has a median net taxable value that is only 45% of the median market value ensuring real property taxes remain affordable to our longtime residents. Similarly, our owner-occupants that reside on premises but also have income producing and/or non-exclusive use of their properties as principal residences are classified as Owner-Occupied Mixed-Use and enjoy the 3% cap, exemptions, and the second lowest tax rate. This property class has a median net taxable value that is approximately 49% of the median market value. Affordable long-term rentals, which are defined as those properties that rent to tenants at or below Kauaʻi's 90% AMI HUD rental limits, are also sheltered by the 3% assessment cap and benefit from the lowest tax rate. These property tax incentives have encouraged private participation in providing reasonably priced long-term rentals with approximately 1,860 units made available to our local residents. The agricultural dedication program provides significantly reduced values to land that is used for bona fide commercial farming and ranching activities. Those who enjoy this tax relief program are only assessed at 5% of the market value for those lands that are in production.

The net taxable value thresholds used for the Non-Owner-Occupied Residential tax class position 77.2% of the properties in the lowest tier, 11.4% in the middle tier, and 11.4% in the highest tier. Properties in the lowest valuation tier, $1.3M or below, predominantly serve as market rate rentals or are vacant, residentially zoned lots. Our third lowest tax rate was applied to this tier. The majority of properties in our highest value tier, over $2M, are typically used as second homes or remain undeveloped, residentially-zoned bulk lands. The median Real Property Tax Liability of $4,356 reflects the concentration of properties in the lower tier while the average of $7,699 reflects some skewing by the top end of the spectrum within the highest tier. The Vacation Rental tax class now has the highest tax rate at $12.20 for incremental assessed values exceeding $2.5M although the effective rate for the tax class as a whole is $11.56. **Combined with the highest median and average net taxable values, the Vacation Rental tax class comprises the largest percentage of Kauaʻi's property tax base at 28.7% of**

the total RPT revenue. The Hotel & Resort tax class is largely comprised of timeshare units by count although a few large resort properties with significant value assessed skew the average value to nearly double that of the median value. This tax class has the highest effective tax rate at $11.75 and represents our third highest percentage of tax revenue at 19.4%.

General Excise Tax (GET) and Transient Accommodations Tax (TAT) – We continue to extend our deepest gratitude to the legislature for allowing the County to control our own destiny using these tax sources. Combined, they have accounted for approximately $70M in additional revenue during any given year. We have been able to avoid the issuance of any new general obligation debt because of this infusion. We may not have to incur any new debt during my entire administration, saving taxpayers millions of dollars in debt service.

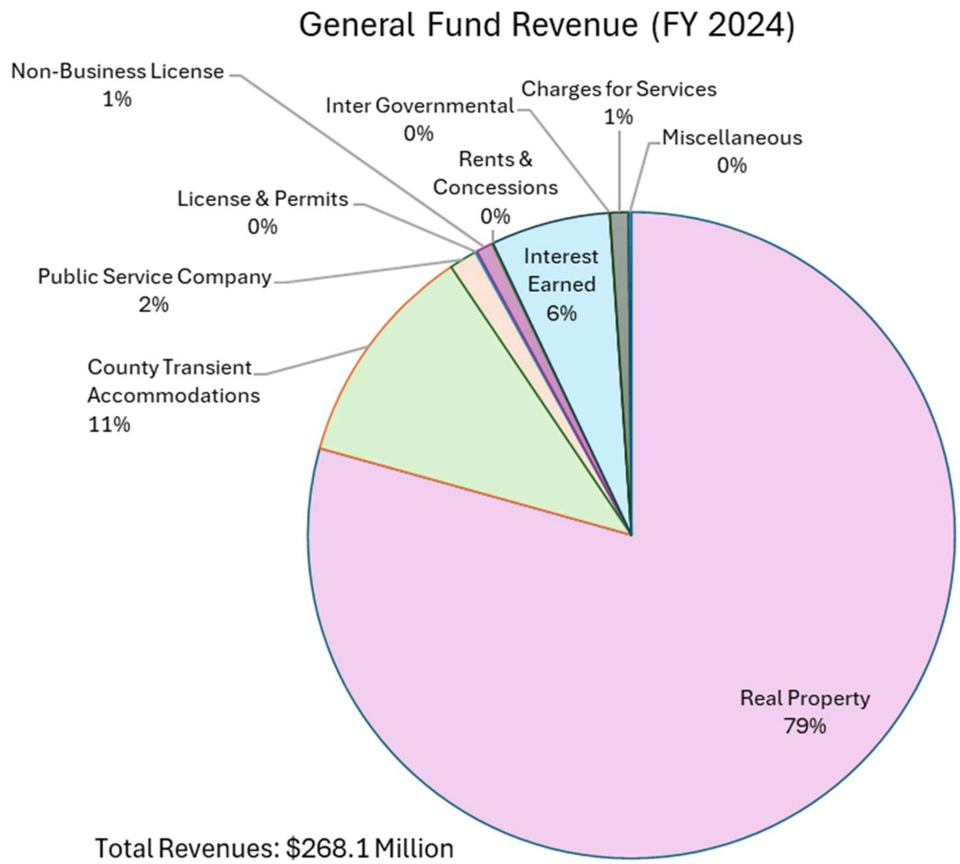
We continue to invest heavily in our infrastructure through the use of the GET surcharge. In Fiscal Year 2025 alone, we budgeted $35M towards resurfacing our roads. This is in addition to CIP amounts for bridges and bigger infrastructure projects. Compared to the budgeted amounts of at most $2M prior to GET, our residents are enjoying the benefits of our road improvement initiatives, not only via smooth roads but also a jolt to our local economy with the significant spending by the County.

The TAT is crucial to our ability to support not only our residents, but our visitors who make up thirty percent of our daily population. We have utilized our increased TAT by focusing efforts towards our Kauaʻi Destination Management Action Plan (DMAP). We have added positions around beach and park operations, to include 12 new full-time positions in our Ocean Safety bureau to broaden our coverage during daylight hours.

Utilizing the TAT and partnering with community organizations, The Coconut Marketplace Mobility Hub Plan is a multi-stakeholder and community plan which proposes a public-private partnership for the development of a mobility hub, information center, and airport shuttle on the east side of the island. These transportation improvements that directly align with DMAP goals would make it easier for people who live in, work in, and visit Kauaʻi's east side to get around, and the project was designed to serve as a model for mobility hubs around the island and State. Visitors are a key target audience considering experience with many transportation modes, as well as flexibility in schedule and spending. The mobility hub and shuttle concepts address many of the issues Kauaʻi faces related to the visitor industry, such as traffic and congestion, destination hot spots, some aging infrastructure, and offers a solution to a transportation network that will not be substantially expanded in the near term.

Further, the County is looking to recreate the Keʻe Beach model created by the State as we plan to launch the airport to Coconut Marketplace shuttle. Using TAT funding to get visitors out of cars for the majority of their trips is a clear way the Kauaʻi community, including residents and visitors alike, can benefit and have a better quality of life.

Other Revenue Sources – The County continues to make the hard choices to raise taxes and fees on our residents and visitors. In addition to increasing our real property tax rates, we have also increased other fees across our county in the last few years; everything from vehicle registration fees and sewer fees to the green fees at Wailua Golf Course. All of these have been raised in recent years as we attempt to keep pace with rising costs. These increases should reduce these funds' reliance on our general fund and show that the County is willing to make the difficult decisions to increase taxes and fees that we control.

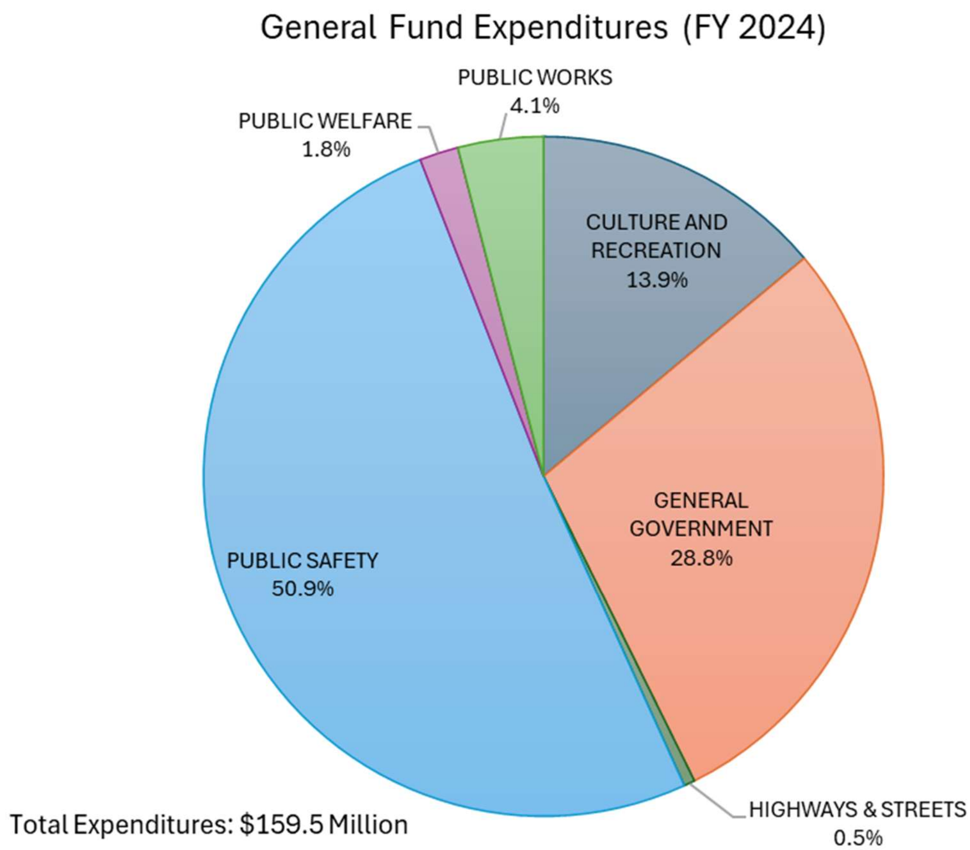


General Fund Expenditures

Salaries and related benefits use over 80% of our general fund expenditures leaving little room for programs that benefit our residents. In addition, we are in the process of settling the payouts for temporary hazard pay. UPW and HGEA are expected to cost us nearly $11M with the other unions waiting for their share. This is paid out of our emergency reserve and will force us out of compliance with our reserve policy which mandates that the reserve balance be at least 30% of prior year general fund revenue.

As indicated in the chart below, over half of our overall general fund expenditures are used towards public safety – Police, Fire, and Emergency Management.

Speaking of fire, we remain steadfast in implementing comprehensive measures to enhance wildfire preparedness, mitigation, and response. While we cannot eliminate all risks, we have taken significant steps to reduce the likelihood of a tragedy occurring on Kauaʻi. Some of our key initiatives include Wildfire Mitigation and Preparedness Efforts to include the establishment of a working group and a severity staffing plan during Red Flag Warnings. We purchased three Type V fire engines and two additional water tenders that will be staged, stocked, and strategically placed across the island for immediate deployment. We are enhancing collaboration and coordination with all our stakeholders and partners. The Kauaʻi Fire Department is actively enhancing the capacity of personnel through incident management training and is seeking advanced wildfire response modules ensuring responders are equipped with the latest knowledge and techniques. We are increasing public awareness campaigns and fuel reduction projects to create defensible spaces, especially in high-priority areas. Further, we are making continuous improvements to our emergency communications and technology, to include a new investment in Pulse Point which will include early warnings or notifications of possible evacuation instructions.



While our general fund revenue greatly exceeded general fund expenses, much of that is used to support our other enterprise funds that do not generate enough revenue to cover their expenses. Solid Waste, Wastewater, and Golf Course are three of those that receive significant general fund subsidies of $18.9M, $6.5M, and $2.4M, respectively. In addition, our Housing Development Fund has seen growing general fund contributions of $14.9M in FY24 and $20.1M in FY25.

Housing Initiatives

The County is the largest developer of housing on the island. In 2024, we completed three new affordable rental projects and the first phase of our single-family home development in the Lima Ola subdivision. Our completed rental projects include our second, 32-unit supportive housing project for homeless families, a 45-unit workforce rental project, and a 40-unit senior housing project. Additionally, we completed the first eight of 38 single-family homes. These single-family homes, built to serve middle income residents who cannot qualify for typical low-income projects but still have no hope of securing stable housing in today's market, represent a concerted effort to expand our affordable housing efforts beyond just low-income rentals. In 2025, we will break ground on Phase II of Lima Ola, paving the way for hundreds of additional homes.

Following the success of our Lima Ola master planned subdivision, we continue to develop additional community driven master planned projects around the island and pursue further land acquisitions. On the west side in Waimea and on the north shore in Kilauea, community master planning and necessary predevelopment work are roughly 50% complete on two community expansion projects that promise in the ballpark of 700 future new homes that will remain permanently affordable.

Understanding that the County cannot solve our housing crisis alone, we continue to work cooperatively with our private partners in the affordable housing space actively supporting private projects with entitlement and permitting support, and direct County funding. In the Līhuʻe Town core, Mark Development and Rice Street Partners are poised to break ground on two projects consisting of over 160 new rental units respectively, and in Port Allen, the Ahe Group is moving forward with the second phase of their 75-unit Kai Olino waterfront project.

In partnership with DLNR, in 2025 we will break ground on Phase II of our successful Kealaula Supportive Housing Project for Homeless Families. Phase II will add an additional 24-units to the existing 30-Unit Kealaula project developed on state land under the Ohana Zone Program. The success of our supportive housing concept is contingent on wrap-around services previously funded through this state program. This proactive funding keeps previously homeless families housed and stable resulting in decreased emergency room visits and health care costs, fewer law enforcement and judicial interventions, better educational outcomes, and fewer needed outside social services. As the Ohana Zone program is set to sunset, we urge the State to consider an alternative to support our long-term operational success of these projects.

Beyond the cooperative County-State effort to respond to homelessness through the development of supportive housing, the County and State have worked for more than a decade to identify unused state lands on Kauaʻi appropriate for the development of affordable housing. In 2020, this effort took concrete form when the state transferred a collection of scattered residential lots to the County via Executive Order with the understanding that the County would do the heavy lifting to develop these properties to house our local families. The County's efforts to develop these properties have ground to a halt, however, due to restrictions on the use of state lands contained in HRS 171. With the support of DLNR, we are working closely with Housing Chair Evslin to draft legislation to amend HRS 171 that will clear the way to finally develop these vacant state properties on Kauaʻi, and for similar work and housing opportunities in other Counties. We urge you to support this measure in the upcoming session and look forward to providing testimony in the future on this important issue.

While land banking as we wait for infrastructure might be our near-term objective, we know the urgency of supply needs to occur not just on Kauaʻi but across the State. That is one reason why we repaid our $12M dwelling unit revolving fund loan well in advance. This move saved our taxpayers over $7M in debt service and also allowed the state to distribute that funding elsewhere.

(Photo: Aerial image of the 45-Unit Workforce Rental Project in Phase I of the Lima Ola Affordable Housing Project. This project, developed on County land under a long-term ground lease by our Development Partner the Ahe Group consists of five one-bedroom units, thirty-six two-bedroom units, and four 3-bedroom units. The project was primarily funded utilizing Tax-Exempt Private Activity Bonds paired with 4% Low Income Housing Tax Credits. Beyond the dust screen at the left of the image is our Supportive Housing Project for Homeless Families.)

(Photos: Blessing and distribution of keys at our 32-unit supportive housing project at Lima Ola.)

CIP Requests

We are requesting State funding for certain projects that have a nexus to State functions.

Our primary request is for Phase 2 renovations to Vidinha Stadium, which is the premier sports facilities on the island. Vidinha Stadium serves as a primary venue for high school athletic programs under the purview of the State of Hawaiʻi Department of Education (DOE). Kauaʻi is unique in that the DOE is reliant on County facilities, such as Vidinha Stadium, for most KIF athletic programs. It is the home field for numerous sporting events, including football, soccer, and track and field meets. High school students rely on the facility to train and compete, fostering physical fitness, teamwork, and school spirit. The stadium also hosts graduation ceremonies, making it a cornerstone of educational milestones for Kauaʻi's youth. $6.5M was previously funded by the State for Phase I which included renovations to the track, field, and scoreboard. This year's requested funding will cover ADA improvements to the bleachers and press box, renovations to the bleachers, food booths, and locker rooms, lighting, and security enhancements.

We are also requesting monies for improvements to Hanapēpē Stadium. The funding would be used for structural and safety upgrades, ADA improvements for inclusivity, and lighting. All uses for Hanapēpē Stadium are for public benefit, and like Vidinha Stadium, is heavily utilized for State athletics.

We included money in the County's Fiscal Year 2025 CIP budget to pursue our first ever public rodeo facility. Thanks to an Executive Order, we have site control and are working with equestrian partners to build an arena that would meet State High School standards. This would include sorting/holding pens, rough stock shoot, announcer booth, bleachers, and a comfort station.

Lastly, we understand the importance and emphasis that is being placed on wastewater service. While the county provides sewer treatment services for four central commerce and civic centers on Kauaʻi, all of these wastewater treatment plants were built in the late 1960s and early 1070's. Wastewater infrastructure is critical to allow for growth within our central communities to support a sustainability goal by providing safe sanitary wastewater disposal solutions for growing areas, and converting communities off of cesspools that create environmental pollution and potential health hazards. The last facility plans for each facility identified approximately $250 million of repairs and potential expansion.

Due to deferred maintenance and high inflationary effects, it is essential that the facility plans be updated. The wastewater facility plans are a comprehensive condition assessment to determine short-term, long-term repairs, and potential expansion improvements. It is a guide to meet regulatory compliance and requirements for the treatment facility and collection system to meet future flows for population and development needs. This effort will enable the prioritization of overwhelming costs associated with deferred maintenance, cesspool conversion expansion opportunities and provide a high degree of confidence in planning future projects, and ultimately the expenditure of public funds.

The county has initiated the facility plan upgrade for each of our four regional wastewater treatment service area, which cost approximately $5M per plan. State revolving funds are ineligible for these plans as they do not necessarily lead to immediate construction of projects. As such, we are requesting a State CIP match of $2.5M for the Līhuʻe facility plan update. Līhuʻe is the "heart of Kauaʻi", the transit-oriented design corridor and the island's major economic, commerce, urban and civic center that is a target for future growth.

Moving Forward

We believe our actions have proven we are fiscally responsible in protecting and defending taxpayer dollars. While we know there is always room for improvement, we pride ourselves on the work that has been accomplished over the last six years of my administration. And with only two years to go, we are looking to finish strong and move the needle on as many initiatives as possible.

We engage well with our Councilmembers who share a similar vision to the path forward here on Kauaʻi. We have demonstrated our commitment to improvement when we make suggestions on areas for our Council to audit. We want to know where we can improve and acknowledge where we need help.

Lastly, we have a great rapport with our sister agencies across the state and other counties, and work collaboratively in all our efforts. Thank you for this opportunity to present these comments. We look forward to working with you throughout this session and the year ahead.