Linda Lingle
GOVERNOR

KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE
February 17, 2010, 4:30 p.m.
Room 308, State Capitol

In consideration of
H.B. 2877 proposed H.D. 1
RELATING TO TAXATION.

The HHFDC ***opposes*** H.B. 2877, proposed H.D. 1, which would suspend General Excise Tax (GET) exemptions for certified or approved housing projects from July 1, 2010 through June 30, 2015. We defer to the Department of Taxation with respect to the remainder of this bill.

The Legislature's intent for the GET exemption was to assure the economic feasibility in the development of a housing project which will encourage and enable the production of as many lower cost housing units as possible. The GET exemption has done just that.

Our preference is for the Committee to delete references to GET exemptions for certified or approved housing projects from this bill. However, we understand the intent of this bill to address the budget shortfall due to the fiscal downturn by increasing tax revenues. Therefore, we respectfully request that page 5, lines 6 through 17 of H.B. 2877, proposed H.D. 1, be amended to include affordable housing projects that have been certified for GET exemption by the Counties pursuant to section 46-15.1, Hawaii Revised Statutes. The proposed amendment follows, in relevant part (proposed changes highlighted):

(22) Gross income received from the planning, design, financing, construction, sale, or lease of affordable housing projects, as described under section 237-29(a), that do not have valid certificates of exemption or approval under sections 46-15.1 or 201H-36 on the effective date of this Act;

(23) Gross income received by nonprofit or limited distribution mortgagors for low- and moderate-income housing projects, as described under section 237-29(b), that were not certified or approved under sections 46-15.1 or 201H-36 on or before the effective date of this Act; and

Thank you for the opportunity to testify.

Hawai'i Tourism Authority

LINDA LINGLE
Governor

MIKE MCCARTNEY
President and
Chief Executive Officer

Hawai'i Convention Center, 1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
Website: www.hawaiitourismauthority.org

Telephone: (808) 973-2255
Fax: (808) 973-2253

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
H.B. 2877, H.D.1
Relating to Taxation

House Committee on Finance
Wednesday, February 17, 2010
4:30 p.m.
Conference Room 308

The Hawai'i Tourism Authority (HTA) opposes H.B. 2877, H.D. 1, which proposes to amend chapter 237, Hawai'i Revised Statutes, by proposing to temporarily suspend the general excise tax exemption provided to the Hawai'i Convention Center operator for amounts received as reimbursement of costs or advances made pursuant to a contract with the Hawai'i Tourism Authority, and to instead levy, assess and collect against the amounts previously exempted a tax at a rate of one-half per cent on the previously exempt gross income.

In Act 173, Session Laws of Hawai'i 2007, the operator of the Hawai'i Convention Center was exempt from the payment of excise taxes on the amounts received for reimbursement of costs or advances made pursuant to a contract with the Hawai'i Tourism Authority under section 201B-7, Hawai'i Revised Statutes. Act 173 was enacted upon the following findings by the Legislature:

> The legislature finds that SMG is the operator under contract with the Hawai'i tourism authority to operate the Hawai'i convention center. As such, the operator is paid only \$500,000 to operate and market the Hawai'i convention center but recently received \$16,000,000 in advances for the costs of operating and marketing the Hawai'i convention center. The department of taxation considers the reimbursement of the \$16,000,000 in costs and advances to the operator as gross income on which the general excise tax is to levied, in the amount of \$700,000, because the operator receives additional monetary consideration in the form of the \$500,000 payment. In effect, this means that \$700,000 of the costs and advances cannot be used for operating and marketing the Hawai'i convention center. However, pursuant to section 201B-8 (b), Hawaii Revised Statutes, the costs and advances for the operation and marketing of the Hawai'i convention center is an obligation of the convention center enterprise special fund and not compensation for personal services to the operator.

Under its current contract with the HTA, SMG is authorized to be paid during FY 2010 the following:

- $500,000 to operate and manage the center;
- $13,250,000 for reimbursement and advancement costs; and
- $6,000,000 to market the center.

If this bill is enacted, SMG will be required to pay approximately $96,250.00 in GET on these moneys that it received from the HTA as advances or reimbursements for the costs of operating and marketing HCC. This amount cannot be used for operating and marketing the center. To the extent that a significant portion of the SMG's expense for operating the convention center are fixed expenses, funds previously allocated to marketing the center may be used to pay the GET. Moreover, as the number of conventions and events at the convention center increase, the operating expenses will also increase and the proposed GET will correspondingly increase.

We urge you to amend Section 2 of H.B. 2877, H.D.1 by deleting paragraph (a) (17) of the new section to amend chapter 237, Hawai‘i Revised Statues.

Thank you for the opportunity to comment on H.B. 2877, H.D.1.

TO : COMMITTEE ON FINANCE
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice chair

FROM: Eldon L. Wegner, Ph.D.
Policy Advisory Board for Elder Affairs (PABEA)

HB 2877 RELATING TO TAXATION

4:30 pm Wednesday, February 17, 2010
Conference Room 308, Hawaii State Capitol

PABEA supports passage of HB 2877.

for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

During this time of economic crisis and revenue shortfalls for our state government, we need to find alternative revenue in a way that assures that everyone shares in the cost rather than to further cut the programs and services needed by our most vulnerable populations.

$ We support at least a temporary increase in some tax rates in order to assure that the fiscal burden is shared by those most able to afford more taxes.

Thank you for allowing me to testify.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Suspend exemptions; impose 0.5% rate

BILL NUMBER: HB 2877, Proposed HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 237 to provide that the following shall be subject to the 0.5% general excise tax rate:

HRS section 237-23(a)(8) - amounts received by Hansen's disease patients and kokuas with respect to business within the county of Kalawao;
HRS section 237-13(3)(B) - amounts deducted from the gross income received by contractors;
HRS section 237-13(3)(C) - reimbursements received by federal cost-plus contractors for the costs of purchased materials, plant, and equipment;
HRS section 237-13(6)(D) - gross receipts of home service providers acting as service carriers for other home service providers;
HRS section 237-16.5 - amounts deducted from the gross income of real property lessees because of receipt from sublessees;
HRS section 237-23.5 - amounts received, charged, or attributable to services furnished by related entities or the imputed or stated interests of related entities;
HRS section 237-23.5(b) - amounts received by common paymasters and disbursed as employee compensation or benefits;
HRS section 237-24(15) - moneys received by foster parents;
HRS section 237-24(16) - amounts received by cooperative housing corporations from shareholders as reimbursement for expenses;
HRS section 237-24.3(3) - amounts received by managers, submanagers, or boards of directors of condominium property regime owner, nonprofit homeowners, or nonprofit community associations;
HRS section 237-24.5(5) - amounts received by employee benefit plans by way of dividends, interest, and other income; provided that employee and employer contributions to employee benefit plans shall continue to be exempt from taxation;
HRS section 237-24.3(5) - amounts received by nonprofit organizations or offices for the administration of employee benefit plans;
HRS section 237-24.7(1) - amounts received by hotel operators or suboperators and disbursed for employee compensation and benefits;
HRS section 237-24.7(2) - amounts received by county transportation system operators; provided that subsidies or grants from the federal and county governments shall continue to be exempt from taxation under this section;
HRS section 237-24.7(4) - amounts received by orchard property operators and disbursed for employee compensation and benefits;
HRS section 237-24.7(9) - amounts received by management companies from related telecommunications services common carriers and disbursed for employee compensation and benefits;
HRS section 237-24.75(2) - amounts received by the Hawaii convention center operator as

reimbursements of costs or advances;
HRS section 237-24.75(3) - amounts received by professional employment organizations from client companies and disbursed for employee benefits and compensation;
HRS section 237-24.8 - amounts received by financial institutions, trust companies, and trust departments;
HRS section 237-25(a)(3) - gross proceeds received from the sale of tangible personal property to the United States and state-chartered credit unions;
HRS section 237-27 - amounts received by petroleum product refiners from other refiners for further refining of petroleum products;
HRS section 237-29(a) - gross income received from the planning, design, financing, construction, sale, or lease of affordable housing projects that do not have valid certificates of exemption or approval under HRS section 201H-36 on the effective date of this act;
HRS section 237-29(b) - gross income received by nonprofit or limited distribution mortgagors for low-and moderate-income housing projects that were not certified or approved under section 201H-36 on or before the effective date of this act; and
HRS section 237-29.55 - gross proceeds or gross income received from the sale of tangible personal property imported for subsequent resale at wholesale.

The director of taxation may establish additional requirements, procedures, and forms pursuant to rules adopted under HRS chapter 91 to effectuate this section.

Provides that: (1) the suspension under HRS section 237-34(15) and (16) shall not be repealed when that section is reenacted on December 31, 2013, pursuant to Act 70, Session Laws of Hawaii 2009; (2) the suspension under HRS section 237-24.3(3) and 237-24.7(1) shall not be repealed when those sections are reenacted on December 31, 2010, pursuant to Act 196, Session Laws of Hawaii 2009.

EFFECTIVE DATE: July 1, 2010; applicable to tax years beginning after December 31, 2009 and ending before January 1, 2016

STAFF COMMENTS: This measure proposes to suspend the selected general excise tax exemptions and provide that they shall be taxed at the rate 0.5% temporarily between 7/1/10 and 6/30/15. It should be remembered that many of the exemptions exist because if the general excise tax were imposed on these entities or transactions it would impose an undue burden or cause businesses to structure transactions in an inefficient manner. Some of these exemptions were adopted to ensure that transactions, such as reimbursements, are not subject to taxation or amounts disbursed as employee compensation and /or benefits. Finally, there are those exemptions which exist because to tax the transaction would be a violation of superior law. Other deductions, exclusions and exemption exist because they help to reduce the pyramiding effect of the general excise tax. It should be remembered that any imposition of tax will not only result in the increase in the cost of doing business in Hawaii but may create inequitable taxing situations that were addressed by the specific general excise tax exemption.

Of the listed exemptions and exclusions which could be considered for suspension are for convention center operators, certain exemptions for financial institutions, and petroleum refiners.

While this measure is proposed to extract additional revenues to address the state's fiscal crisis, the adoption of this measure may create more administrative headaches and legal problems rather than generate additional funds.

Digested 2/16/10

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

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1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

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February 16, 2010

The Honorable Marcus R. Oshiro, Chair
House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: H.B. 2877, Proposed H.D.1, Relating to Taxation

HEARING: Wednesday, February 17, 2010 at 4:30 p.m.

Aloha Chair Oshiro, Vice Chair Lee and Members of the Committee:

I am Craig Hirai, a Chair of the Subcommittee on Affordable Housing, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,800 members in Hawai'i. HAR has the following **comments** with respect to the provisions of H.B. 2877, Proposed H.D.1, Relating to Taxation, which temporarily taxes at a one-half percent rate amounts currently exempted from the General Excise Tax ("GET") for certified or approved housing projects under HRS §§ 201H-36 and 237-29.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities. Rental Housing Trust Fund projects qualify for and benefit from the GET exemption under HRS §§ 201H-36 and 237-29.

HRS §46-15.1(a) allows counties to grant county projects an exemption from GET in the same manner as projects of the Hawaii Housing Finance and Development Corporation pursuant to HRS §201H-36.

HAR therefore respectfully requests that this Committee amend subsections 237-A(a)(22) and (23) in Section 2 of H.B. 2877, Proposed H.D.1, to read as follows:

<u>(22)</u> <u>Gross income received from the planning, design, financing, construction, sale, or lease of affordable housing projects, as described under section 237-29(a), that do not have valid certificates of exemption or approval under section 46-15.1 or section 201H-36 on the effective date of this Act;</u>

Hawai'i Association of REALTORS®
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(23) Gross income received by nonprofit or limited distribution mortgagors for low- and moderate-income housing projects, as described under section 237-29(b), that were not certified or approved under section 46-15.1 or section 201H-36 on or before the effective date of this Act; and

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

The Mutual Housing Association of Hawai'i, Inc.

MHAH

CENTRAL OFFICE

Pioneer Plaza
900 Fort Street Mall, Suite 1690
Honolulu, Hawai'i 96813

Tel: (808) 550-0804
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E-mail: mhah@mutual-housing.org

February 16, 2010

Honorable Marcus Oshiro, Chair
And Members of the Finance Committee
State House of Representatives
Hawai'i State Capitol
415 South Beretania Street; Room 306
Honolulu, Hawai'i 96813

Dear Chair Oshiro and Members:

Subject: House Bill No. 2877 H. D. 1
Relating to Taxation

The Mutual Housing Association of Hawai'i, Inc. ("Mutual Housing") <u>strongly opposes the portion of House Bill No. 2877 H.D. 1</u> which temporarily suspends the exemption of general excise tax ("GET exemption") for all new affordable housing projects as of July 1, 2010 and sunsets on June 30, 2015. We specifically oppose subsections (a)22 and (a)23 of the new Section 237-A proposed in the H.D. 1.

Developers and owners of affordable rental housing projects rely on the GET exemption to make their projects financially feasible and to maintain the affordability of their rents for low-income families. The GET exemption for certified affordable housing projects has been in place to assist the economic feasibility in the development of affordable housing projects for decades. It has proven to be a successful incentive for the development and preservation of affordable housing and should be allowed for future affordable housing projects.

It will take years to develop the projects to meet all of the need in the state. The GET exemption for affordable housing projects is a critical tool helping organizations like Mutual Housing address our affordable rental shortage.

Thank you for the opportunity to provide this testimony.

Sincerely,

David M. Nakamura
Executive Director

LAND USE RESEARCH
FOUNDATION OF HAWAII
700 Bishop Street, Ste. 1928
Honolulu, Hawaii 96813
Phone 521-4717
Fax 536-0132

Via: FINTestimony@Capitol.hawaii.gov

February 17, 2010

Opposition to HB 2877 Relating to Taxation
(Suspends AH GET Exemptions for Affordable Housing Projects)

Honorable Chair Representative Marcus Oshiro, Vice Chair Marilyn Lee and Members House Committee on Finance:

My name is Dave Arakawa, and I am the Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF'S OBJECTIONS TO HB 2877.

LURF ***opposes*** **HB 2877, proposed H.D. 1**, which would suspend General Excise Tax (GET) exemptions for certified or approved housing projects from July 1, 2010 through June 30, 2015.

Over the years, the GET exemption program for affordable housing has satisfied its original intent – which was to assure the economic feasibility in the development of a housing project which will encourage and enable the production of as many lower cost housing units as possible.

LURF's RECOMMENDATIONS. Our preference is for the Committee to delete references to GET exemptions for certified or approved housing projects from this bill.

However, we understand that the intent of this bill is to address the budget shortfall due to the fiscal downturn by increasing tax revenues and we understand that the Hawaii Housing Finance and Development Corporation (HHFDC) is submitting proposed revisions to the bill. We therefore, we respectfully request that your committee give favorable considerations to the revisions proposed by HHFDC, including, but not limited to allowing GET exemptions for the following:

- affordable housing projects that have been certified for GET exemption by the Counties pursuant to section 46-15.1, Hawaii Revised Statute;

- Gross income received from the planning, design, financing, construction, sale, or lease of affordable housing projects, as described under section 237-29(a), that do not have valid certificates of exemption or approval under sections 46-15.1 or 201H-36 on the effective date of this Act;
- Gross income received by nonprofit or limited distribution mortgagors for low- and moderate-income housing projects, as described under section 237-29(b), that were not certified or approved under sections 46- 15.1 or 201H-36 on or before the effective date of this Act.

Thank you for the opportunity to express our **<u>opposition</u> and suggested revisions to HB 2877.**

THE CHAMBER OF COMMERCE OF HAWAII
1132 Bishop Street, Suite 402
Honolulu, HI 96813

Testimony to the House Committee on Finance
Wednesday, February 17, 2010
4:30 PM
Conference Room 308
Agenda #4

RE: HOUSE BILL NO. 2877, RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee, and members of the committee.

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's support of the intent of House Bill 2877, Relating To Taxation, **with expressed reservations on SECTION 6** regarding a temporary suspension of exemptions from October 1, 2010 through June 30, 2015 for ship building and ship repair (237-B (39)) and gross income on affordable housing projects (237-B, (40)).

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the US military and its civilian workforce and families, and has provided oversight for the state's multi-billion dollar defense industry since 1985.

The measure proposes to temporarily suspend the exemption for certain persons and amounts of gross income or proceeds from the general excise tax and requires payment of the tax at a one-half percent rate. Measure is to take effect on October 1, 2010 and sunset on June 30 2015.

We share the concerns of the state on the continuing declines being reported in state tax revenues. The budget deficit is unprecedented and has placed the state in a precarious financial condition where drastic measures may have to be taken.

We would like to note that Hawaii's defense industry has had significant impact in providing some stability to Hawaii's economy. Military spending continues at a good pace, stimulating jobs for the workforce and providing contracts for hundreds of small businesses. It behooves the state to encourage increased defense spending in support of Hawaii's small businesses and workforce.

While we agree that measures must be taken to balance the state budget, we ask for the committee to review our concerns on the following two paragraphs under SECTION 6, which proposes to amend Chapter 237, Hawaii Revised Statutes, 237-B by temporarily suspending the exemptions for ship repair and low-income housing.

1. Regarding Section 6, 237-B (39): This applies to exemptions for certain ship building and ship repair businesses. Hawaii is an island state that must rely on maritime shipping for its basic and survival needs, making the ship repair industry a vital part of our business sector. Global competition from lower cost ship repair businesses from as far away as China has had significant impact on Hawaii's ship repair businesses. Taking away this exemption will be an added burden in sustaining the remains of the ship repair industry. Currently, the exemption has enabled our ship repair businesses to compete favorably for defense contracts offered by the US Navy. A repeal of this exemption will force the Navy to seek other contractors on the West Coast as opposed to awarding contracts to local businesses that are fully qualified and capable. The question here is whether the state desires to force the Navy to seek contractors on the West Coast and cause irreparable damage to Hawaii's ship repair businesses.
2. Regarding Section 6, 237-B (40): This applies to exemptions for low-income housing projects. This provision, coupled with section 201H-36, Hawaii Revised Statutes, serves as the catalyst in providing for low income or affordable housing in Hawaii. We believe that a repeal of this provision could result in unintended consequences in providing adequate planning for a large segment of our community. Affordable housing continues to be a quality of life concern not only for Hawaii residents but to a large number of military members who qualify as well. This impacts not only the quality of life for an important segment of our

community, but with revenues for small businesses, jobs for residents, and tax revenues from businesses and employed residents.

We believe that imposing a tax rate of one-half percent would provide additional needed revenues to the state and help to balance the budget, but we are not able to testify on the potential impact it would have on the affected businesses. Accordingly, we are hopeful that these businesses are sufficiently informed to submit appropriate testimony to assist the committee determine the appropriate tax rate.

For these reasons, we respectfully request that the committee measure the impact the proposed tax rate of one-half percent would have on the ship repair and low-income housing businesses that would be affected by this measure.

Thank you for the opportunity to testify.

Foresters
Investing · Sharing · Inspiring

February 12, 2010

The Honorable Marcus Oshiro
Chair, House Finance Committee
39th Representative District
Hawaii State Capitol, Room 306
415 South Beretania Street
Honolulu, HI 96813

Dear Chairman Oshiro:

I am writing to express my opposition to the provision of HB 2877 and 2878 that would require fraternal benefit societies to pay general excise tax in the State of Hawaii. I am disappointed that legislation to tax fraternal benefit societies is back on the table again this year and that additional taxation of death, sickness, and accident benefits is also being considered as part of HB 2877.

Foresters purpose is to champion the well-being of families through quality life insurance, unique member benefits and inspiring community activities. Across Hawaii, our almost 1,700 members are making a real difference in their communities.

Every year, Foresters members raise money and offer direct support to sick and injured children in partnership with organizations such as HUGS and Children's Miracle Network. Members work side-by-side charitable organizations, lending their time to make an impact in the lives of local families.

In 2008, Foresters and other NFCA member societies contributed more than 90,900 hours of volunteer service valued at over $1.84 million[1] and made direct financial contributions of over $407,000 to schools, charities and community service organizations in Hawaii.

Fraternal benefit societies have long been recognized as tax-exempt entities by all 50 states and the federal government. The structure of fraternal benefit societies allows them to provide financial support and volunteer outreach activities to fill gaps in the social safety net and help Hawaiians enhance their lives and their communities.

If enacted, HB 2877 and 2878 would make Hawaii the first and only state to tax fraternal benefit societies. In addition, requiring fraternal societies to pay these taxes would have a devastating effect on our ability to support the community service projects that help thousands of Hawaiians every day.

I urge you to consider the very real consequences of enacting HB 2877 and 2878. With your support, our members can continue to make a meaningful impact in local communities across Hawaii.

Sincerely,

Kasia Czarski

Kasia Czarski
SVP, Chief Membership & Marketing Officer

[1] According to the Volunteering in America July 2009 Research Highlights 2008 estimate of the dollar value of a volunteer hour ($20.25). www.volunteeringinamerica.gov

NFCA
National Fraternal Congress of America

NATIONAL FRATERNAL CONGRESS OF AMERICA
TESTIMONY IN OPPOSTION TO HB 2877 RELATING TO TAXATION

February 17, 2010

Via e mail: fintestimony@capitol.hawaii.gov
Honorable Marcus R. Oshiro, Chair
Committee on Finance
House of Representatives
Hawaii State Capital, Conference Room 308
415 S. Beretania Street
Honolulu, Hawaii 96813

Dear Chair Oshiro and Members of the Committee:

Thank you for the opportunity to testify in opposition to HB 2877, a bill relating to insurance.

On behalf of the members of the National Fraternal Congress of America (NFCA), I am writing to express our opposition to the provision of HB 2877, legislation which would subject fraternal benefit societies and hundreds of other non-profit organizations to the state's 4 percent general excise tax and place an additional tax of ½ percent on death, sickness and accident benefits to fraternal members and their dependents.

The NFCA's 70 member societies operate in all 50 states and provide financial security to nearly 10 million Americans and their families through life insurance and related products. Societies utilize the proceeds from the sale of these products to make direct financial contributions to hundreds of charitable organizations across the country and, more importantly, to orchestrate and support their individual members' volunteer activities. In 2008, NFCA members volunteered over 94 million hours (valued at $1.9 billion) to community service projects in 2008 and made over $415 million in direct financial contributions to support charitable, patriotic, educational, and religious activities.

Four NFCA members – Thrivent Financial for Lutherans, Woodmen of the World, The Independent Order of Foresters, and Knights of Columbus – have active volunteer networks in Hawaii. Combined, these societies have over 9,000 members in the state and lend their financial and volunteer support to a variety of causes and organizations. The following are just a few examples of how our members have helped individuals and partnered with other organizations in Hawaii:

- Members of The Independent Order of Foresters donated over $7,000 in support of HUGS, a group aiding children with life-threatening medical conditions. Over 40 fraternal volunteers provided respite care that allowed parents of sick children some much-needed rest and quality time with family.

- Thrivent Financial for Lutherans members donated over $40,000 and over 3,000 hours of service to various groups dedicated to assisting Hawaii's homeless population.
- The Knights of Columbus is the largest financial supporter of the Special Olympics and its members donate thousands of hours to conducting events for special needs children in Hawaii. The Knights also provide financial support for the state's Catholic schools and charities.
- Members of Woodmen of the World provide financial and volunteer support to the state's large Korean community and are actively engaged in Korean-American Sports Days.

In 2008, members of these societies contributed more than 90,000 hours of volunteer service valued at over $1.8 million and made direct financial contributions of over $407,000 to schools, charities, and community service organizations in Hawaii.

Fraternal benefit societies have been recognized as tax-exempt entities by the federal government and all 50 states for more than a century. If enacted as drafted, HB 2877 would make Hawaii the first and only state to require fraternal benefit societies to pay general excise tax. Our estimates indicate that the state would generate less than $380,000 in new tax revenues by applying the 4 percent general excise tax to fraternal benefit societies. In addition, HB 2877 would apply a ½ percent tax on death, sickness, and accident benefits for fraternal members and their dependents. This tax would generate approximately $42,000 and make Hawaii the first and only state to tax fraternal members in this fashion. These revenues would have a negligible impact on the state budget.

Moreover, taxing fraternals would severely threaten their ability to provide over $2.2 million worth of volunteer service and direct financial aid they contribute to fill gaps in the social safety net and help people in Hawaii enhance their lives and their communities. Volunteering is the key to fraternalism – fraternals don't just donate money, they do the work. The economic equation simply does not add up. The people of Hawaii and the state government receive far more benefit from the fraternal tax exemption than they would if societies were subject to the general excise tax.

I urge you to consider the very real negative consequences that would result from enactment of HB 2877in its current form and to strike the provision that would subject fraternal benefit societies and other non-profit organizations to the state's general excise tax and apply a ½ percent tax on death, accident, and sickness benefits.

NFCA members welcome the opportunity to discuss our concerns with you in more detail. I would be happy to arrange a meeting between you and your staff and representatives of the NFCA member societies serving the needs of your citizens. Please contact me if you would like to schedule such an event or if you have any questions about our position on this issue. I look forward to working with you to ensure that fraternal benefit societies continue their strong tradition of community service in Hawaii.

For the foregoing reasons, NFCA strongly opposes HB 2877 and respectfully requests that this Committee defer passage of this bill.

Again, thank you for the opportunity to testify in opposition to HB 2877.

CHAR HAMILTON
CAMPBELL & YOSHIDA
Attorneys At Law, A Law Corporation

By: ______________________
OREN T. CHIKAMOTO
otc@charhamilton.com

cc Mr. Joseph J. Annotti

NFCA
National Fraternal Congress of America

FRATERNAL BENEFIT SOCIETIES IN HAWAII

9,277 fraternal benefit society members made a difference in Hawaii in 2008.

Charitable contributions by members and lodges $407,410

Total lodges in Hawaii 30

Total volunteer hours 90,909

WHAT IS A FRATERNAL BENEFIT SOCIETY?

Fraternal benefit societies are not-for-profit membership organizations that offer their members life insurance protection and provide them with volunteer service, educational, spiritual, leadership, and social opportunities through their community-service networks.

In 2008, fraternal benefit society members in Hawaii participated in activities that helped congregations, schools, charitable organizations and individuals in need. They also contributed more than $407,000 to charitable programs and volunteered more than 90,000 hours in support of their communities.

MEMBERS HELP

Our volunteer outreach activities fill gaps in government programs and help people across the country enhance their communities and their lives. Here are just a few examples of our member societies' commitment to community service.

AIDING FAMILIES

NFCA member societies played a pivotal role in providing relief to victims of Hurricane Katrina and, more recently, to victims of flooding and other natural disasters. Fraternal contributions included direct financial aid to individuals and families; donations of food, clothing and other necessities to victims; opening of societies' youth camps to house evacuees; and countless volunteer hours dedicated to clean-up and recovery efforts.

JOINING HANDS TO TOUCH LIVES

Fraternals maximize the impact of their contributions by partnering with other organizations to provide services to those most in need. NFCA member societies' partners include Habitat for Humanity, Children's Miracle Network, American Red Cross, Salvation Army, Special Olympics, and many more.

NFCA Headquarters • 1315 West 22nd Street, Suite 400 • Oak Brook, IL 60523
Phone: (630) 522-NFCA (6322) • Fax: (630) 522-6326 • E-Mail: nfca@nfcanet.org

NFCA
National Fraternal Congress of America

FRATERNAL
BENEFIT SOCIETIES IN
HAWAII

FRATERNAL BENEFIT SOCIETIES IN HAWAII

Hawaii is home to 20 fraternal benefit societies with more than 9,200 members, who contribute to communities through their local chapters and lodges in the state.

Fraternal Benefit Society	Members
[redacted]	[redacted]
Catholic Aid Association	34
[redacted]	[redacted]
Catholic Holy Family Society	3
[redacted]	[redacted]
Gleaner Life Insurance Society	34
[redacted]	[redacted]
Independent Order of Foresters	1,419
[redacted]	[redacted]
Mennonite Mutual Aid Association	35

Fraternal Benefit Society	Members
[redacted]	[redacted]
National Mutual Benefit	26
[redacted]	[redacted]
Thrivent Financial for Lutherans	1,899
[redacted]	[redacted]
Western Catholic Union	4
[redacted]	[redacted]
Woodmen of the World/Assured Life	27
[redacted]	[redacted]
WSA Fraternal Life	1

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Thrivent Financial for Lutherans®

4321 N. Ballard Road, Appleton, WI 54919-0001
Phone: 800-THRIVENT (800-847-4836)
E-mail: mail@thrivent.com • www.thrivent.com

Hawaii Chapter Activities 2008

Community Partners	Number of Events	Total Attendance	Thrivent Member Volunteer Hours Recorded	Funds Raised and/or Donated
Lutheran Schools - 6 different schools - various fundraisers	8	2,423	5,881	$76,929
Angel Network Charities - various fundraisers	3	169	1,291	$23,637
Combined event for Angel Network Charities & Calvary by the Sea Lutheran School	1	120	1,200	$6,805
Institute for Human Services - fundraising for shelter and food	7	323	605	$5,651
Family Promise of Hawaii - fundraisers to house and feed homeless	5	293	2,292	$1,900
Salvation Army - Kokua Kitchen - plan, prepare & serve lunch meal & prepare & distribute brown bag lunches	1	15,162	4,407	$10,000
OYEA	1	243	590	$20,032
Lihue Lutheran Church - holiday meal for needy & homeless families	1	139	207	$4,900
Joy of Christ - backpack kits for homeless and near homeless kids	1	75	1,045	$500
Boys and Girls Club - paint and clean facility	1	73	714	$1,200
S.A.Y. Yes! Centers - holiday fundraiser	1	150	60	$3,673
Total	**30**	**19,170**	**18,292**	**$155,227**

GOODSILL ANDERSON QUINN & STIFEL
A LIMITED LIABILITY LAW PARTNERSHIP LLP

GOVERNMENT RELATIONS TEAM:
GARY M. SLOVIN
ANNE T. HORIUCHI
MIHOKO E. ITO
CHRISTINA ZAHARA NOH

ALII PLACE, SUITE 1800 • 1099 ALAKEA STREET
HONOLULU, HAWAII 96813

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MEMORANDUM

TO:	Representative Marcus R. Oshiro Chair, Committee on Finance ***Via Facsimile: 586-6001***
FROM:	Mihoko Ito
DATE:	February 16, 2010
RE:	**H.B. 2877, Proposed H.D. 1 – Relating to Taxation** **Hearing: Wednesday, February 17, 2010 at 4:30 p.m.**

Dear Chair Oshiro and Members of the Committee:

I am Mihoko Ito, testifying on behalf of **Wyndham Worldwide ("Wyndham").** Wyndham Worldwide has substantial interests in Hawaii that include Wyndham Vacation Ownership, with its resort at Waikiki Beach Walk.

Wyndham **opposes** H.B. 2877, proposed H.D. 1, to the extent that this measure seeks to suspend the exemption and impose a one-half percent tax from 7/01/2010 to 6/30/2015 on the following amounts:

- Amounts received by managers, submanagers, or boards of directors of condominium property regime owner, nonprofit homeowner, or nonprofit community associations as described under section 237-24.3(3) in the form in which it existed on July 1, 2010 (page 3, subparagraph 10)

- Amounts received by hotel operators or suboperators and disbursed for employee compensation and benefits as described under section 237-24.7(1) in the form in which it existed on July 1, 2010 (page 3, subparagraph 13)

These amounts are presently exempted from GET, as a result of law first enacted by Act 239, SLH 2007, and extended in Act 196, SLH 2009. The exemption applies to certain pass-through amounts that are transferred from the owner of the properties to the operator of the properties. Included in these sums are amounts paid that reflect what is owed to employees in the way of salary and benefits. The exemption from tax on these amounts would either take away from the amounts available to be paid to employees both in salary and benefits and, in most cases, actually result in the owner paying sums directly to employees and other persons to whom these sums are due rather than having those sums paid by the operator here in Hawaii. It is to everyone's benefit that those sums be paid by the local operator to the local employees and local vendors. The exemption will continue to level the playing field with regard to similarly situated entities for the payment of monies to a hotel operator for employee wages and benefits, and should not be taxed.

We further note that similar measures have been considered by other Committees, and that we would instead support S.B. 2643, S.D. 1, which repeals the sunset date for the exemption and clarifies that the aggregate cap on the exemption applies to the amount of tax exempted.

Thank you for the opportunity to submit testimony on this matter.

Joy of Christ
"the welcome place!"

Rev. Ruth Peterson
Pastor

Diane Taketa
Office Manager

JOY OF CHRIST LUTHERAN CHURCH
784 Kamehameha Hwy. Pearl City, HI 96782 Tel: 808-455-1138 Fax: 808-456-2369
E-mail: joynews@hawaii.rr.com Web Site: http://joyofchrist.net

February 14, 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, HI 96813

RE: House Bills 2877 & 2878 - Taxing Fraternal Benefit Societies

Dear Representative Oshiro:

I am writing to respectfully request that you support my ability to continue to make a difference in my local community.

I am a member of Thrivent Financial for Lutherans, a fraternal benefit society active here in Hawaii. I volunteer along with other Thrivent members in my state chapter. In 2008 alone, we dedicated more than 18,000 volunteer hours to help raise and contribute more than $155,000 dollars to help meet local needs.

For instance, our outreach program, Operation Backpack, has been able to supply much needed food, clothing, and other items to the homeless, elderly on low income and those at risk for homelessness has benefited from funds from Thrivent Financial for Lutherans.

I recently learned that House Bills 2877 and 2878 would impose the general excise tax on fraternal benefit societies like Thrivent. Thrivent uses the benefits of its current tax exemption to fund our state chapter and the programs that members like me use to make a difference in our communities. Imposing the general excise tax will directly threaten my chapter's ability to continue our volunteer outreach efforts.

Please work to support fraternal volunteers like me and our efforts in Hawaii by opposing legislation to impose the general excise tax on fraternal benefit societies.

Sincerely,

Rev. Ruth M. Peterson

Rev. Ruth M. Peterson
Pastor

KILAKILA
EMPLOYER SERVICES

February 16, 2010

Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

RE: HB2877_HD1 Relating to Taxation
Hearing: Wednesday, February 17, 2010 at 4:30 pm

Dear Representatives:

My name is Carole Kooy. I am the President of Kilakila Employer Services, Inc. a Professional Employer Organization (PEO) on the island of Maui and Oahu. I have been in business for thirteen years and have helped many small businesses with their payroll and employee administration needs. As Maui's largest PEO we have 150 clients with a combined workforce of over 800 employees. Our company operates as the client's Human Resource Department providing many services including:

- Paychecks, Payroll tax deposits and reporting
- Insurance including workers' compensation, disability, and health
- On site safety programs
- Claims management & back to work programs
- Customized employee handbooks

Our services allow small employers to provide a range of benefits and delivers them at a price usually only available to larger companies at a cost savings and compliance

HB 2877 by suspending the exemption PEO's currently have to pay GE-Tax on service fees only and not on pass-through payroll taxes, gross wages, and health benefits. This coupled with the increase of SUI will cause many small business clients to close their doors or simply not hire employee's legally.

I urge all house members to vote no on HB 2877 and instead consider bills which will provide tax credits to stimulate the economy

Sincerely,
Carole K. Kooy
President and CEO

P.O. Box 880618
7 Aewa Pl, Suite 6
Pukalani Hi 96788-0618
Phone 808-573-2211 ~ fax 808-572-4531
www.kilakila.com ~ kes@kilakila.com

Castle & Cooke
Hawai'i

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Harry A. Saunders
President

Fax Submittal: 586-6001
Email Submittal: http://www.capitol.hawaii.gov/emailtestimony

Testimony by Harry Saunders
President, Castle & Cooke Hawai'i
February 16, 2010

Before the House **FINANCE** Committee

February 17, 2010
4:30 p.m.
Room 308

In Opposition to HB 2877 and HB 2878

RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee and Members of the House Finance Committee.

Castle & Cooke opposes both HB 2877 and HB 2878 as it relates to either the temporary suspension or repeal of certain GET exemptions as it applies to affordable housing.

As the developer of the State-HHFDC sponsored affordable housing programs (140% and below HUD AMI; for sale and low income rentals) and in satisfaction of other county affordable housing requirements (sale and rental programs), the GET exemption is a critical incentive in providing affordable housing. The GET exemptions allow us to:

1. Lower the overall costs of affordable housing
2. Initiate affordable housing projects when other market units may be suspended
3. Create indirect and direct jobs that general substantial payroll taxes and subsequent worker spending that more than offset the GET exemption

While we understand the economic crisis the State is facing in balancing the budget, we hope that affordable housing programs that can stimulate the economy will not be curtailed. It takes many financing components to develop an affordable housing project. Removal or reduction of any affordable financing program can negatively impact the viability of an affordable sale or rental project. For these reasons, we oppose HB 2877 and HB 2878.

Mahalo for your consideration of our testimony. If you have questions, please feel free to contact us:

Harry Saunders, President
Castle & Cooke Hawai'i
aktsukamoto@castlecooke.com
548-4884

Richard Mirikitani, Senior Vice President and Counsel
Castle & Cooke Hawai'i
rmirikitani@castlecooke.com
548-4890

Bruce Barrett, Executive Vice President – Residential Operations
Castle & Cooke Hawai'i
barrett@castlecooke.com
548-3746

Carleton Ching, Vice President – Community and Government Relations
Castle & Cooke Hawai'i
cching@castlecooke.com
548-3793

Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair
Committee on Finance

HEARING Wednesday, February 17, 2010
4:30 pm
Conference Room 308
State Capitol, Honolulu, Hawaii 96813

RE: HB2877, Relating to Taxation

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to the support of the retail industry and business in general in Hawaii.

RMH strongly opposes HB2877, which temporarily suspends the exemption for certain amounts of gross income or proceeds from the general excise tax and requires the payment of the tax at a one-half per cent rate, and is effective from July 1, 2010 through June 30, 2015.

In fiscal year 2009, retail revenues in the state of Hawaii declined by $2 billion dollars from the previous year. General Excise Tax reports from the Department of Taxation indicate another three-quarters of a billion dollar decline during the first three months of the current fiscal year.

Because the financial support for RMH, not unlike that of other not-for-profit organizations, is inextricably interwoven with the performance of the retail industry, we have experienced significant losses in revenue. Like all businesses, we've reduced expenses, including staff compensation, as deeply as possible, while continuing to maintain the level of service to the retail industry as required by our not-for-profit mission and objectives.

Mandating a one-half percent GET on RMH would yet another burden on the organization. It is regrettable that RMH, founded in 1901, might not survive another year.

We urge you not to pass HB2877. Thank you for your consideration and for the opportunity to testify on this measure.

Carol Pregill

Carol Pregill, President

RETAIL MERCHANTS OF HAWAII
1240 Ala Moana Boulevard, Suite 215
Honolulu, HI 96814
ph: 808-592-4200 / fax: 808-592-4202

ALTRES HR

February 16, 2010

Representative Marcus R. Oshiro, Chair
Committee on Finance
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Subject: **HB2877**
Relating to Taxation; February 17, 4:30 p.m. CR 308

Dear Representative Oshiro:

My name is Barron Guss, President and second-generation owner of ALTRES, Inc., a 40-year old Hawaii company. I want to express my sincere appreciation and understanding of the challenges you and your fellow lawmakers face as you work to not only reduce the deficit but also chart a course for the future of Hawaii.

With this in mind I understand that HB2877 was envisioned to increase revenue but, unfortunately, its enactment would have the opposite effect and cripple certain segments of the economy, including the PEO industry.

Professional Employer Organizations act as the human resources and administrative arm of over 2,000 of Hawaii's small businesses. In this capacity, a PEO prepares payroll, provides workers' compensation, health insurance and enhanced lifestyle benefits to the employees of the clients they serve, which now number over 20,000.

The PEO industry worked tirelessly with the Legislature, Tax Department, and labor organizations for a period of more than 12 years to provide clarification and relief of the G.E.T. on monies that if paid without the administration of a PEO would not be taxed. It is important to note that with the current exemption, the PEO's service fees are taxed at 4.712%. The current exemption simply allows the pass through amounts, such as payroll and benefits, to be exempt from the G.E.T. as they would be if paid directly from the employer to the employee.

As you are aware, the already struggling employers of Hawaii are facing upwards of a $1,500 to $2,000 per person increase in unemployment insurance costs in the coming year. The imposition of a .5% tax on wages, benefits and insurance simply because they choose to employ the services of a PEO would have a devastating effect.

To illustrate this point, the average wage in the State is approximately $33,000, and associated tax and benefits cost an additional $8,000. The proposed .5% tax would mean an increased cost of more than $205 per employee. This is an increase that my clients simply will not tolerate and will cause them to cancel their services and find alternative methods to avoid the taxation of HB2877.

Others will go rogue, leading to an increase in non-compliance regarding taxation and labor laws. Those who fall off the grid will pay their people cash to avoid not only this tax but the increased cost of unemployment insurance and the rising cost of medical benefits.

With this outcome I, and others in this industry, would need to make adjustments. For ALTRES, we would have to lay off our 134 long-time staff who would then join the roster of the unemployed in Hawaii.

In summary, I would like to express my extreme opposition to HB2877, Subsection 32, which would, in effect, decrease tax revenue and employee benefits, create a loss of jobs, and put me out of business.

Sincerely,

Barron L. Guss
President and CEO

BLG:lo

Hawaii Bankers Association

TEL:
808-524-5161
FAX:
808-521-4120
ADDRESS:
1000 Bishop Street, Suite 301B
Honolulu, HI 96813-4203

Presentation to the House Committee on Finance

Wednesday, February 17, 2010, at 4:30 pm, Conf Rm 308

Testimony for HB 2877 Relating to Taxation

TO: The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance

My name is Neal Okabayashi of First Hawaiian Bank and I testify for the Hawaii Bankers Association in strong opposition to HB 2877, proposed HD 1.

Proposed HD 1 seeks to eliminate the general excise tax exemption for banks and replace it with a 0.5% excise tax. See proposed section 237-A(a)(19).

This proposal is, perhaps, based on the mistaken assumption that banks do not pay excise tax but in fact, banks do pay the equivalent of excise tax because that tax is subsumed in the franchise tax paid by banks. The franchise tax rate is 7.92% and there is a bill to increase the rate by 10%. The franchise tax rate is 23.75% higher than the top corporate income tax rate because it is also in lieu of paying an excise tax. Thus, there is no exemption for banks on excise tax; we merely pay it under another chapter. Passage of this bill means double taxation for Hawaii banks.

The impact of passage of this provision would put Hawaii banks in a quandary of absorbing the tax increase, which could mean the difference between profit and loss for some banks, or passing on the tax to its customers which would be devastating to our customers, include state and local governments, and as a result our economy.

This proposal must be seen in the context of pending federal legislation which would increase the assessments and tax on one local bank. Congress is contemplating enacting systemic risk legislation to fund the resolution or liquidation of Too Big To Fail financial institutions (for example, AIG, an investment bank, or a bank holding company). This process would not replace but would be similar to the FDIC process for handling the liquidation of a bank. To pay for this liquidation process, an up to $150 billion systemic risk resolution fund is being created and under the latest proposal, one Hawaii bank would have to contribute to this fund, and its contribution is expected to be substantial. In addition, President Obama's tax on banks to repay TARP funds would also be visited on one local bank, and again, the amount is expected to be substantial.

Adding the potential for increasing the bank's tax by adopting HB 2877, proposed SD 1 would be extremely burdensome.

Proposed section 237-A(a)(6) is also objectionable to us. Banks are part of a bank holding company system. The parent bank holding company system is organized under the federal Bank Holding Company Act. In this fashion, bank holding companies may engage in activities closely related to banking in a corporation separate from the bank. This structure has the advantage of isolating the bank from the activities of affiliates as well as subjecting banks to more stringent standards which are not applied to conventional corporations. As a result, there will be inter-company transactions between affiliated companies which should not be subject to chapter 237. Federal law, under the Bank Holding Company Act and sections 23A and 23B of the Federal Reserve Act specifically envision that banks would be members of a family of companies with inter-company transactions. In addition, a bank holding company may own more than one bank and for economies of scale, it would be expected that there would be inter-company transactions between the two banks.

For these reasons, we ask that HB 2877, proposed HD1 be deferred indefinitely.

I would be happy to answer any questions you may have.

OUTRIGGER
ENTERPRISES GROUP
Hospitality • Retail • Development

HOUSE OF REPRESENTATIVES
25th LEGISLATURE
REGULAR SESSION of 2010

COMMITTEE ON FINANCE
Representative Marcus Oshiro, Chair

2/16/10
4:30 PM – Room 308

HB 2877
Relating to Transient Accommodation Tax (TAT)

My name is Max J Sword, here on behalf of Outrigger Hotels, to speak in opposition to this measure.

The portion of the bill I am referring to is Section 1: 237-A, (10) & (13) and Section 4 (1).

Section 1: 237-A (10) & (13) grants a tax exemption on employee's wages and benefits, when a management company receives funds to pay its employees, from the owner of a property. The funds are a pass thru expense.

In the bill Section 1 suspends the exemption, while Section 4 eliminates the exemption altogether.

This section is important to the industry, especially local management companies, because it levels the playing field when it comes to managing a hotel, timeshare or a condo-tel. It allows the local companies to compete with the larger out-of state companies.

Mahalo for considering my testimony and we urge your support for the number one industry in Hawaii and not eliminate this exemption.

2375 Kuhio Avenue, Honolulu, Hawaii 96815-2992 • Phone: 808-921-6600 • Fax: 808-921-6655

February 17, 2010

Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance
State Capitol, Room 308
415 South Beretania Street
Honolulu, Hawaii 96813

Subject: HB 2877 HD1 and HB 2878; Hearing February 17, 2010 at 4:30 P.M.; Testimony in Opposition

Dear Chair Oshiro and Members of the House Committee on Finance:

Thank you for this opportunity to submit our testimony in opposition to HB 2877 HD1 and HB 2878. Both bills address the GET exemption for qualified low income rental housing projects. EAH Housing is a non-profit public benefit corporation dedicated to developing, managing, promoting and preserving affordable rental housing.

The GET exemption provided to qualified low income rental housing is a critical component in the economic feasibility of new developments and in the ability of existing developments to meet their loans and operational commitments. The GET exemption applies to rent only. If the property charges for parking or gets income from a centralized laundry or vending machines then GET is paid on that income. Each property must apply and be qualified for the exemption on an annual basis.

Our state has a critical shortfall of affordable rental housing. The GET exemption helps to encourage the production and preservation of as many affordable rental units as possible. EAH Housing strongly opposes HB 2877 HD 1, which would suspend the GET exemption from July 1, 2010 through June 30, 2015, and HB 2878 which proposes to repeal the GET exemption for the same time period.

Any repeal or suspension of the GET exemption is going to make the development and preservation of affordable rental housing, an already difficult task in the best of times, much more difficult in a financial environment with limited capital available.

Sincerely,

Kevin R. Carney, (PB)
Vice President, Hawaii

Creating community by developing, managing and promoting quality affordable housing since 1968.

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808 / 523-8826 ■ Fax 808 / 523-8827

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San Rafael, California 94901-5531
415 / 258-1800 ■ Fax 415 / 453-4927

Ship Repair Association of Hawaii
P.O. BOX 29001, Honolulu HI 96820
Ph# (808) 848-6211 Fax# (808) 848-6279

Representative Marcus Oshiro, Chair
Committee on Finance
House of Representatives, Twenty-Fifth Legislature
Hawaii State Capitol, Conference Room 308
415 South Beretania Street
Honolulu, HI 96813
fax 808-586-6001
E-mail http://www.capitol.hawaii.gov/emailtestimony

February 17, 2010

Dear Representative Oshiro:

This letter is written and submitted to the State House Committee on Finance, on behalf of the Ship Repair Association of Hawaii (SRAH), regarding House Bill 2877.

The Ship Repair Association of Hawaii is fundamentally opposed to, but supports the intent of House Bill 2877, Section 39, which would:

[... temporarily suspend the exemption of state GET and levy a tax of ½% rate ... October 1, 2010 – June 30, 2015 ... for ...]

(39) Gross proceeds received from shipbuilding and ship repairs as described under section 237-28.1;

..., were this bill to make it through the Legislature and be signed into law.

If the full impact of the state's standard GET were applied to ship repairs to surface vessels in Hawaii, companies with local Hawaii offices would shoulder substantial added costs, eroding our ability to secure work on vessels which may readily be bid to repair at lower prices elsewhere (U.S. mainland or foreign repair locations). This unintended consequence would not only deprive the state of any tax revenue (from the absented vessels/projects), but would compound the state's loss through the impact on businesses' and employees' tax base components. There is also concern that at least some non-resident companies who perform work here without a Hawaii address could continue to avoid paying the state GET, unfairly compounding other advantages they may already hold in competing against local companies.

Our association recognizes and supports the intent of HB 2877 – to temporarily impose a significantly reduced proportion of the GET on a broad cross-section of the state's business community who individually warrant GET exemptions for valid reasons, in order to mitigate the state's crucial need for functionally sustaining revenues, unexpectedly and grossly depleted by the ongoing economic recession.

The SRAH remains opposed in principle, to imposition of a GET of any magnitude on our industry, due to its undermining effect on our ability to compete with out-of-state ship repair entities and to the broader unintended, damaging effects to our business community – and ultimately, to Hawaii's economic viability.

Please understand that shipbuilding and repair is an industry competing more and more with a global market. In the current economic recession, that competition is exacerbated. Hawaii's ship repair companies' costs must continue to be held as low as possible, to compete with off-island repair entities – a difficult challenge to our island economy in a fragile economic period.

It is worthy to note that the U.S. Navy is pressing through intense necessity, to reduce ship repair costs for work conducted on U.S. Navy ships, including those home ported in Pearl Harbor. To that end, the Navy instituted the Multi-Ship Multi-Option (MSMO) contracting concept to consolidate commercially contracted Pearl Harbor surface ship repairs under central (prime contractor) management, with a principal goal of improving the cost effectiveness of ship maintenance.

As a near term example of the undermining effect imposing even a reduced GET would have on our industry in Hawaii: SRAH and MSMO contractors are working to maintain the Navy's commitment to conduct two significant Navy Aegis (TICONDEROGA Class) Cruiser modernizations and upgrades here in Pearl Harbor, beginning in early 2011. If the Navy is required to pay even a reduced (1/2% rate) GET for these projects, which are anticipated to produce revenues of $30M - $40M each, the added costs to the Navy (on the order of $200K for each cruiser) would constitute a measurable element on the side of the ledger in favor of relocation of these maintenance availabilities – and other significant ship repair availabilities planned to take place - to the West Coast of the U.S. Even if the availabilities remain in Hawaii, the discretionary amount of funding spent on ship repair would likely be reduced to offset the tax bill. As a result, our industry would be disadvantaged, losing a measurable portion of revenues, with recessionary effects rippling through our local economy. Our association realizes approximately $90-100M in annual revenue from government contracted ship and repair facility installations and maintenance in and around Pearl Harbor.

Regarding smaller, non-federal commercial projects, the imposition of a reduced GET (1/2% rate) would similarly add noticeable dollars to every waterfront customer's costs, and in turn, erode our (SRAH's) ability to bid competitive prices for our own state's commercial vessel repairs. For example, a $1M repair project for a local cargo ship or barge would derive additional GET-driven costs of $5K or so, added to the customer's bill; not necessarily an amount of sufficient magnitude to drive customers away from Hawaii altogether, but nonetheless impacting decisions on discretionary spending.

Additional complexities imposed by assessment of even a reduced (1/2% rate) GET would include erosive effects on our state's tax base itself. To begin with, SRAH companies' employee wages appreciably support Hawaii families, who pay income taxes. Our association's members include approximately 700-800 employees locally. Additionally, our suppliers and vendors employ 1800-2000. Most Hawaii companies engaged in ship repair do other critical service, manufacturing and repair work in the economy as well. We all pay full GET related to that non-ship repair work. Many of our companies would not be as productive on-island without the synergy realized from our ship-related industrial activities – some could in fact be threatened with failure in a difficult economy, by impacting our ship repair sectors of business. This is an important aspect of the existing Hawaii ship repair tax exemption: it supports the sustainment of other beneficial (and taxed) Hawaii industries, including facilities electrical work, structural steel work, electronics, etc. <u>Damage to the health of the ship repair sectors of our businesses could impart transitive negative effects to broader areas of the Hawaii business community and tax base.</u>

While our association is mindful of the broad economic challenges facing our state, including the severity of revenue shortfalls being carefully reviewed by this committee – and we are in fact supportive of the temporary intent, at least, of HB 2877 as proposed – we request that this committee and the full Legislature bear in mind the fragile nature of our industry and the need for restoring our normal exemption from GET of any magnitude. It is important that, as soon as economically feasible, Hawaii's shipbuilding and ship repair industry's exemption from GET be expeditiously restored.

As noted above, the shipbuilding and repair industry operates in a global market, in a challenging economic recession. In addition to our ongoing need for restoring a GET exemption for vessel repairs, unless Jones Act type protections are stiffened, our Hawaii ship repair companies face fierce competition from relatively nearby Asian competitors.

The stimulus provided by a GET exemption for our industry remains crucial to the proper and healthy diversification of Hawaii's workforce, our technological engagement and our

business interests, to successfully sustain our state through varying economic and operational environments.

When House Bill 2877 is reviewed by your committee, please review the above listed considerations and approve the bill, but include a provision that would require annual review of the shipbuilding and ship repair exemption, to consider whether economic conditions will allow full restoration of that crucial exemption.

Sincerely yours,

Iain Wood
President
Ship Repair Association of Hawaii

CARL A. ANDERSON
SUPREME KNIGHT

TEL.: 203-752-4350
FAX: 203-752-4118

KNIGHTS OF COLUMBUS
1 COLUMBUS PLAZA
NEW HAVEN, CONNECTICUT 06510-3326

February 16, 2010

The Honorable Marcus Oshiro
Chair, House Finance Committee
Hawaii State Capitol, Rm. 306
415 South Beretania Street
Honolulu, Hawaii 96813

Re: HB 2877 – General Excise Tax

Dear Chairman Oshiro:

On behalf of the Knights of Columbus, I would like to express our strong opposition to HB 2877. This legislation would, for the first time anywhere, impose a general excise tax on fraternal benefit societies and other non-profit organizations.

The Knights of Columbus was formed in Connecticut in 1882 to render financial aid to members and their families. Mutual aid and assistance are offered to sick, disabled and needy members and their families. Social and intellectual fellowship is promoted among members and their families through educational, charitable, religious, social welfare, war relief and public relief works. The Knights of Columbus has grown from a few members in one council in Connecticut in 1882 to more than 1.75 million members in more than 13,000 councils throughout the United States, Canada, the Philippines, Mexico, Poland, the Dominican Republic, Puerto Rico, Panama, the Bahamas, the Virgin Islands, Cuba, Guatemala, Guam and the Northern Mariana Islands.

The results of the Knights of Columbus Survey of Fraternal Activity for the year ended December 31, 2008 show that total contributions to charity at all levels reached $150,036,653 – exceeding the previous year's total by more than $5 million dollars. This figure includes $32,295,376 donated by the Knights of Columbus headquarters and $117,741,489 in charitable donations by state and local councils. The survey also shows that the reported number of volunteer hours by members of the Knights of Columbus for charitable causes was 68,783,653. Cumulative figures show that during the past decade, the Knights of Columbus has donated nearly $1.325 billion to charity, and provided nearly 626 million hours of volunteer service in support of charitable causes. Further details concerning the charitable activities of the Knights of Columbus are provided in our website at www.kofc.org.

Imposing a general excise tax on fraternal benefit societies such as the Knights of Columbus, would raise very little new revenue and would serve only to reduce the much-needed volunteer and charitable work that benefits the citizens of Hawaii. The value of what we are able to accomplish through our tax exemption far exceeds the small amount of revenue that would be gained. We would ask, therefore, that you consider the very real negative consequences that would result from enactment of HB 2877 in its current form and to strike the provision that would subject fraternal benefit societies and other non-profit organizations to the state's general excise tax.

Sincerely,

Carl A. Anderson

Carl A. Anderson
Supreme Knight

PETER L. FRITZ
414 KUWILI STREET, #104
HONOLULU, HAWAII 96814
TELEPHONE: (808) 532-7118
E-MAIL: PLFLEGIS@FRITZHQ.COM

HOUSE OF REPRESENTATIVES
THE TWENTY-FIFTH LEGISLATURE
REGULAR SESSION OF 2010

COMMITTEE ON FINANCE
Hearing February 17, 2010
Testimony on H.B. 2877 HD 1 (Proposed)
(Relating to Taxation)

Chair Oshiro, Vice-Chair Lee and members of the Committee:

My name is Peter Fritz. I am an attorney specializing in tax matters. I am opposed the provisions in Section 2 of this bill that will tax amounts received by Hansen's disease patients and kokuas. I do not take any position on the other provisions in the bill.

- The change will cause a hardship upon a section of the population least able to bear this new burden.

- It is more likely than not that the revenue gain by the change in the tax treatments of amounts received by Hansen's disease patients will justify such a change.

Thank you for the opportunity to testify.

Peter L. Fritz

February 13, 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, Hawai'i 96813

Aloha Representative Oshiro:

I respectfully request that you support my local community.

I am a member of Thrivent Financial for Lutherans,
a fraternal benefit society active here in Hawaii.
I volunteer along with other Thrivent members in my state chapter.
In 2008 alone, we dedicated more than 18,000 volunteer
hours to help raise and contribute more than
$155,000 dollars to help meet local needs.

For instance, we have been providing homeless families meals,
supporting families with catastrophic medical bills, providing
building materials and help for Habitat for Humanity projects,
and providing school scholarships for children.

I recently learned that House Bills 2877 and 2878 would
impose the general excise tax on fraternal benefit societies
like Thrivent. Thrivent uses the benefits of its current tax
exemption to fund our state chapter and the programs that
members like me use to make a difference in our communities.
Imposing the general excise tax will directly threaten
my chapter's ability to continue our volunteer outreach efforts.

Please work to support fraternal volunteers like me and
our efforts in Hawaii by opposing legislation to impose
the general excise tax on fraternal benefit societies.

Aloha in Christ,
George Evensen principal@osls-hawaii.org
Our Savior Lutheran School
98-1098 Moanalua Road
'Aiea, Hawai'i 96701 http://oursaviorlutheranschool.org

(808) 488-0000

February 14, 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, HI 96813

RE: House Bills 2877 & 2878 - Taxing Fraternal Benefit Societies

Dear Representative Oshiro:

I am writing to respectfully request that you support my ability to continue to make a difference in my local community.

I am in business in Hawaii, and am also a member of Thrivent Financial for Lutherans, a fraternal benefit society active here in Hawaii. I volunteer along with other Thrivent members in my state chapter. In 2008 alone, we dedicated more than 18,000 volunteer hours to help raise and contribute more than $155,000 dollars to help meet local needs. Every year, Thrivent provides caring and respectful support to the Oahu community.

For instance, our Thrivent chapter has supported:

- the only food bank in East Oahu, Angel Network Charities, where I volunteer
- fundraising for shelter and food for the institute for Human Services
- food for the Salvation Army Kokua Kitchen
- a group of youth on the island who work to help those less fortunate
- Boys and Girls clubs by cleaning and painting their facilities
- housing and feeding homeless people through Family Promise of Hawaii
- providing a holiday meal for homeless and/or needy families
- the 'backpack kit' project for needy kids on Oahu
- a holiday fundraiser to S.A.Y. Yes! Centers
- six Lutheran schools

I recently learned that House Bills 2877 and 2878 would impose the general excise tax on fraternal benefit societies like Thrivent. This seems like a very foolish way to generate revenue for the State of Hawaii, in my opinion. Thrivent uses the benefits of its current tax exemption to fund our state chapter and the programs that members like me use to make a difference in our communities. Imposing the general excise tax will directly threaten my chapter's ability to continue our volunteer outreach efforts.

We must not lose sight of our humanity while focusing on the budget. Who will provide all the things listed above, if we cripple our non-profit agencies?

Please work to support fraternal volunteers like me and our efforts in Hawaii by opposing legislation to impose the general excise tax on fraternal benefit societies.

Sincerely,

Phyllis Podolske

401 Kawaihae St.
Honolulu, HI 96825
395-9401

Dixie Kaetsu
712 Kaulele Place
Hilo, Hawaii

February 14, 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, HI 96813

RE: House Bills 2877 & 2878 - Taxing Fraternal Benefit Societies

Dear Representative Oshiro:

I am writing to respectfully request that you support my ability to continue to make a difference in my local community.

I am a member of Thrivent Financial for Lutherans, a fraternal benefit society active here in Hawaii. I volunteer along with other Thrivent members in my state chapter. In 2008 alone, we dedicated more than 18,000 volunteer hours to help raise and contribute more than $155,000 dollars to help meet local needs.

I recently learned that House Bills 2877 and 2878 would impose the general excise tax on fraternal benefit societies like Thrivent. Thrivent uses the benefits of its current tax exemption to fund our state chapter and the programs that members like me use to make a difference in our communities. Imposing the general excise tax will directly threaten my chapter's ability to continue our volunteer outreach efforts.

Please work to support fraternal volunteers like me and our efforts in Hawaii by opposing legislation to impose the general excise tax on fraternal benefit societies.

Aloha,

Dixie Kaetsu

February 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, HI 96813

RE: House Bills 2877 & 2878 - Taxing Fraternal Benefit Societies

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For instance, *as a board member of Angel Network Charities, I have experienced first hand how Thrivent has contributed to our fundraising in matching funds and increased the number of volunteers participating. We have been able to feed many more homeless and hungry.*

I recently learned that House Bills 2877 and 2878 would impose the general excise tax on fraternal benefit societies like Thrivent. Thrivent uses the benefits of its current tax exemption to fund our state chapter and the programs that members like me use to make a difference in our communities. Imposing the general excise tax will directly threaten my chapter's ability to continue our volunteer outreach efforts.

Please work to support fraternal volunteers like me and our efforts in Hawaii by opposing legislation to impose the general excise tax on fraternal benefit societies.

Sincerely, Michael Podolske

February 2010

The Honorable Marcus R. Oshiro
Chair, House Committee on Finance
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, HI 96813

RE: House Bills 2877 & 2878 - Taxing Fraternal Benefit Societies

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For instance, at St. Mark Lutheran Church in Kaneohe, we have partnered with more than 15 other churches to provide 365 day per year shelter, meals and support to homeless families on the windward side, through an organization called Family Promise of Hawaii. Thrivent Financial for Lutherans has assisted the support of these homeless families at St. Mark to the tune of about $2000 per year for the last three years. Thrivent Financial for Lutherans has also added financial support to our weekly food bank at St. Mark, and to our St. Mark Lutheran School.

I recently learned that House Bills 2877 and 2878 would impose the general excise tax on fraternal benefit societies like Thrivent. Thrivent uses the benefits of its current tax exemption to fund our state chapter and the programs that members like me use to make a difference in our communities. Imposing the general excise tax will directly threaten my chapter's ability to continue our volunteer outreach efforts.

Please work to support fraternal volunteers like me and our efforts in Hawaii by opposing legislation to impose the general excise tax on fraternal benefit societies.

Sincerely,

Yal M Lim

Yal M. Lim
44-133 Nanamoana St.
Kaneohe, HI 96744