DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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PETER B. CARLISLE
MAYOR

MICHAEL R. HANSEN
ACTING DIRECTOR

February 2, 2011

The Honorable Robert N. Herkes, Chair
and Members
Committee on Consumer Protection & Commerce
House of Representatives
The Twenty-Sixth State Legislature
State Capitol
Honolulu, Hawaii 96813

Dear Chair Herkes and Members:

Subject: House Bill No. 1271 Relating to Public Service Company Tax

The City & County of Honolulu opposes H.B. 1271 which proposes to take 50 percent of the Public Service Company (PSC) tax proceeds that are currently collected by the counties. These public service companies are exempted from paying real property taxes and the PSC is important in that it replaces lost real property tax revenue. The City & County of Honolulu alone stands to lose $20 million to $25 million in revenue as a result of H.B. 1271 and the loss of this revenue would severely affect residents, businesses, and the essential services that the City provides.

We believe that utility companies should pay their fair share to the counties for municipal services, and usurping the counties' share of the PSC is unfair to our residents and businesses. While we are sympathetic to the financial difficulties faced by the State, diverting these needed funds creates a huge financial burden on all counties. We stand strongly opposed to H.B. 1271.

Sincerely,

Michael R. Hansen

Michael R. Hansen, Acting Director
Budget & Fiscal Services

From: Tina Desuacido [tina500@juno.com]
Sent: Tuesday, February 01, 2011 8:43 AM
To: CPCtestimony
Subject: Tax Foundation Commentary
Attachments: h1271-11.pdf

TRANSMISSION OF TESTIMONY

DATE: **Tuesday, February 1, 2011**

TO: **House Committee on Consumer Protection & Commerce**

FROM: **Tax Foundation of Hawaii**

Total Pages 1

FOR: **Rep. Robert Herkes, Chair**

Testifier: **Lowell L. Kalapa, President - Tax Foundation of Hawaii**

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Wednesday, February 2, 2011

Position: **Comments**

Time of Hearing - 2:05 pm

HB 1271 - Relating to the Public Service Company Tax (1 page)

Number of copies - 1

Thank you.

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: PUBLIC SERVICE COMPANY, Disposition to general fund

BILL NUMBER: HB 1271

INTRODUCED BY: Chong

Comments

BRIEF SUMMARY: Amends HRS section 239-10 to provide that 50% of the public service company tax collections from a rate greater than 4% shall be deposited into the state's general fund between July 1, 2011 and June 30, 2016.

This act shall be repealed on July 1, 2016; provided that sections HRS 269-5(a) and 269-10, shall be reenacted on July 1, 2016, in the form in which those sections read on June 30, 2011

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: This measure temporarily diverts 50% of the public service company tax revenues that are realizations of the county in which the tax revenue is generated to the general fund. While this will result in a reduction of revenues for each of the counties, they will have to seek other sources of revenue to make up the loss, i.e., increases in fees, charges for services and possibly an increase in real property tax rates.

The sharing of the public service company receipts came about after more than two decades of discussion after the 1978 Constitutional Convention turned over complete control of the real property tax to the counties. The public service company tax which dates back to 1932 is levied on regulated utility companies in-lieu of the general excise tax and the real property tax. Prior to that date, public utilities were taxed under the general property tax law as enterprises for profit. Sparked by the recommendation of the 1989 Tax Review Commission, the counties spent the next decade negotiating with the state and public utilities to secure a portion of the tax in return for continuing to exempt the property of these taxpayers from the real property tax. As a result, in 2001 lawmakers adopted Act 64 which allocated the collections from the tax in excess of a rate of 4% to be paid over to the counties in lieu of levying the real property tax. This measure proposes to take back half of those collections for the next five years.

If the state wishes to divert a portion of the public service company tax revenue to the state general fund, then consideration must be given to replacing the lost revenues either with a grant-in-aid or another source as grants-in-aid to the counties were repealed by Act 338, SLH 1989. At the very least, given that the counties are in the midst of their budget making process, consideration might be given to early passage of this measure so the counties can construct their budgets with some idea of the revenues they will have for next year's budget.

In the fiscal year ending on June 30, 2009, (the latest year for which all collections are available), public service company tax collections for all counties totaled $73.5 million. If this measure were adopted, the counties would receive only about $37 million. That loss of revenue more than likely would have to be made up by an increase in real property tax rates.

Digested 2/1/11