



## Memorandum

To: Chair Colleen Takamura, Tax Review Commission  
Vice Chair Vaughn Cook, Tax Review Commission  
Ray Blouin, Tax Review Commission  
Nalani Kaina, Tax Review Commission  
John Knox, Tax Review Commission  
Dawn Lippert, Tax Review Commission  
Billy Pieper, Tax Review Commission  
Titin Sakata, Hawaii Department of Taxation

From: Randall Bauer, PFM

Re: Tax Studies Project Report, 5/1/2017

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### Project Summary

The PFM Group's study of the Hawaii tax system continues to progress according to schedule. During this reporting period, the project team has made significant progress toward completing all Phase 2 (Information Gathering) activities.

As mentioned in the previous report, the project team continues to conduct additional phone interviews with key stakeholders and subject matter experts and has followed up as needed to obtain any relevant data or reports. These informative calls have been very useful for understanding the State's taxation issues from a variety of stakeholder perspectives.

In recent weeks, the team has begun to explore key benchmarking and best practice areas that will help to inform opportunities that Hawaii may have related to tax and revenue alternatives, as well as tax policy issues that are applicable to the State. Examples of these primary areas include (but are not limited to): recent state efforts to restructure the "three-legged stool" of taxation, implementation of alternative sales and excise taxes (e.g. plastic bag taxes, sugary beverage taxes), other state income tax structures, and attempts to reduce regressivity through the use of millionaires' tax brackets.

Additionally, the project team has completed a full draft of the model that will be used to analyze tax burden and regressivity on differing income cohorts; the team is now transitioning to the internal review and quality control phase. While this analysis was also provided as part of the 2012 study, a new feature will allow the user to view tax burden on a county-by-county basis.

Finally, the project team attended the Tax Review Commission meeting on Monday, April 24, 2017. PFM provided an update to TRC members regarding the status of the project and also benefitted from hearing other updates related to the Commission's work as a whole.

### Key Activities through April 30, 2017

The project team conducted the following activities in accordance with Phase 2 of the project plan:



- Remotely participated in the Tax Review Commission meeting on April 24, 2017 to provide an update to TRC members regarding the status of the project and provide additional input on topics discussed in the meeting;
- Completed a full draft of the tax burden and regressivity model;
- Explored the key areas in which there are opportunities to benchmark Hawaii that could potentially impact the baseline and/or key drivers of the financial models;
- Continued to conduct best practices research on tax structure and tax policy issues that are applicable to the State of Hawaii;
- Continued to schedule and hold interviews and follow-up meetings via conference call with internal and external stakeholders and subject matter experts. Most recently, the project team spoke with Dr. James Mak of the University of Hawaii. For a full list of interviews conducted to date, see **Appendix A**.

#### **Planned Activities May 1-15, 2017**

- Evaluate the impact of various revenue-generating initiatives on the State's pension and retiree health care obligations;
- Continue to explore key areas in which there are opportunities to benchmark Hawaii that could potentially impact the baseline and/or key drivers of the financial models;
- Continue to conduct best practices research on tax structure and tax policy issues that are applicable to the State of Hawaii;
- Schedule and hold interviews and follow-up meetings via conference call with internal and external stakeholders and subject matter experts. In the coming weeks, the project team is scheduled to speak with the following stakeholders/subject matter experts:

<b>Affiliation</b>	<b>Name(s)</b>	<b>Date</b>
Hawaii Chamber of Commerce	Reg Baker	May 3, 2017
UH Board of Regents	Randy Moore	May 11, 2017
Hawaii House of Representatives	Rep. Sylvia Luke	May 15, 2017

#### **Action, Support or Materials Requested**

- The Project Team will continue to schedule and hold interviews and follow-up meetings via conference call; currently, efforts are underway to secure meetings with Senator Jill Tokuda, Chair of the Senate Ways and Means Committee; Damien Elefante, Deputy Director of the Department of Taxation, and the staff member(s) at the Department responsible for implementation of the new online tax system. If there are internal or external stakeholders that the TRC and staff believe are warranted in addition to the names referenced above and in **Appendix A**, please let us know so that we can arrange meetings.

#### **Issues and Risks (Carried Over as Well as New)**

This section will serve as a means to monitor project issues and risks as they occur and are resolved. There are currently no issues or risks.



Issue #	Issue	Proj. Impact (High/Med/Low)	Responsibility Assigned To	Actions & Status	Date Logged	Target Resolution Date

### Project Calendar

Below is an overview of the key dates as outlined in the initial project plan (dates subject to change pending modifications/guidance from the TRC):

Date(s)	Description
February 6-10	Contract Signed
February 13-17	Interviews TRC Members
February 20-24	Interviews Key Stakeholders
March 6-10	Attend TRC Meeting in Person to Discuss Project Plan and Strategy
April 24	Attend TRC Meeting Remotely
June 19-30	Present High Level Findings Remotely
July 31-August 4	Draft Report Due
July 31-August 4 <sup>1</sup>	Attend TRC Meeting in Person to Present Draft Report
September 4-8	Final Report Due

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<sup>1</sup> Or on a date that aligns with TRC meeting



## Appendix A

### Completed Stakeholder/Subject Matter Expert Interviews as of May 1, 2017

Affiliation	Name(s)	Date
Council on Revenues	Kurt Kawafuchi Jack Suyderhoud Marilyn Niwao John Roberts	March 8, 2017 March 20, 2017 March 31, 2017 March 31, 2017
Department of Budget and Finance	Wes Machida Neal Miyahira Laurel Johnston Sharon Kotaka	March 8, 2017
Department of Business, Economic Development and Tourism	Dr. Eugene Tian Dr. Joseph Roos	March 7, 2017
Department of Taxation	Ted Shiraishi Titin Sakata Donald Rousslang Seth Colby	March 9, 2017
Hawaii Appleseed Center	Nicole Woo	March 31, 2017
Hawaii Chamber of Commerce	Reg Baker	April 13, 2017
Hawaii House of Representatives	Rep. Isaac Choy Rep. Scott Saiki	March 8, 2017
Hawaii Senate	Sen. J. Kalani English Sen. Ronald Kouchi	March 8, 2017 March 14, 2017
Hawaii Tax Foundation	Tom Yamachika	March 20, 2017
Hawaii Tourism Authority	George Szigeti Randy Baldemor Daniel Nahoopi Charlene Chan	April 6, 2017
Tax Review Commission	Colleen Takamura, Chair Vaughn Cook, Vice Chair Ray Blouin Nalani Kaina John Knox Dawn Lippert Billy Pieper Randy Iwase (prior TRC)	February 28, 2017 February 26, 2017 February 27, 2017 February 28, 2017 February 20, 2017 March 6, 2017 February 27, 2017 March 7, 2017
University of Hawaii	James Mak (Retired)	April 25, 2017