

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Disposition for innovative business interaction program

BILL NUMBER: HB 716, HD-2

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: This bill adjusts earmarks on the transient accommodations tax (TAT) that feed various special funds. Earmarks decrease transparency and accountability of government operations and should be avoided.

BRIEF SUMMARY: Amends HRS section 237D-6.5(b)(2) to increase the amount of transient accommodations tax allocated to the tourism special fund from \$82,000,000 to \$82,500,000.

Appropriates \$_____ out of the tourism special fund in fiscal 2016 to the innovative business interaction program.

Adds a new section to HRS chapter 201B to establish an innovative business interaction program for investors and talent.

EFFECTIVE DATE: February 19, 2025

STAFF COMMENTS: Currently, TAT revenues are allocated as follows: (1) \$26.5 million is deposited into the convention center enterprise special fund; (2) \$82 million is deposited into the tourism special fund; (3) \$103 million is transferred to the various counties; (4) \$3 million is for debt service of the Turtle Bay conservation easement; and (5) any remaining revenues deposited into the general fund of which \$3 million is allocated in accordance with the Hawaii tourism authority strategic plan. The proposed measure would increase the amount of TAT revenues allocated to the tourism special fund by \$500,000 and then appropriate the same amount to the innovative business interaction program to increase the interaction of business investors and talent.

The proposed measure would add another siphon of TAT revenues, and would perpetuate the earmarking of TAT revenues for activities other than tourism. If there are insufficient funds to promote the industry, then visitor counts will drop and so will the income that fuels the state's economy. But visitors also contribute to state coffers directly through the taxes on everything they purchase in Hawaii including hotel rooms, visitor activities and purchases of food and souvenirs. To that extent, a good part of the general fund tax collections is contributed by visitors. If the argument is that visitors should pay for other "visitor related" programs, then paying for those programs out of general funds would be more appropriate than stealing the money from what is identified as a tax paid specifically by the visitor.

Rather than the continual earmarking of TAT revenues, a direct appropriation of general funds would be preferable. Earmarking the TAT revenues for these programs that not only benefit the visitors but the community at large, decreases transparency and accountability.

Finally, it should be remembered that revenues earmarked into a special fund, in this case the tourism special fund, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Digested 3/19/15