STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

JAN K. YAMANE
Acting State Auditor
(808) 587-0800
FAX: (808) 587-0830

TESTIMONY OF SIMEON R. ACOBA, CHAIR, STATE-COUNTY FUNCTIONS WORKING GROUP, ON HOUSE BILL NO. 833, RELATING TO TAXATION

House Committee on Tourism
February 18, 2015

Chair Brower and Members of the Committee:

I am Simeon R. Acoba, Chair of the State-County Functions Working Group. Thank you for the opportunity to comment on House Bill No. 833, relating to taxation. This measure would make permanent the current amounts of transient accommodations tax (TAT) revenues allocated for distribution to the counties.

The Working Group was created by Act 174 (SLH 2014) and administratively placed within the Office of the Auditor. The Working Group, which first convened in October 2014, is comprised of 13 members appointed by the Governor, the Senate President, the Speaker of the House of Representatives, each of the county mayors, and the Chief Justice. The group is assigned the following responsibilities:

1) Evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and

2) Submit a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

Act 174 requires the Working Group to submit two reports: 1) an Interim Report, which was delivered to the Legislature, Governor, and each of the county mayors, on December 18, 2014; and 2) a Final Report with its findings and recommendations to the same parties 20 days prior to the convening of the 2016 Regular Session.

The Working Group will continue its work through 2015 and shall cease to exist upon the adjournment sine die of the 2016 Regular Session. We note that any TAT legislation passed this year may affect the on-going work of the Working Group. Accordingly, while we take no position on the merits of this bill, we respectfully request your consideration of deferring decisions on TAT legislation introduced this year to the 2nd year of the 28th State Legislature to enable the the Working Group to complete its work. As required by Act 174, the Working Group will report its findings and make recommendations prior to the 2016 Regular Session.

Thank you for the opportunity to offer comments on House Bill No. 833. I am available for your questions.

HAWAIʻI TOURISM
AUTHORITY

Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815
kelepona tel 808 973 2255
kelepaʻi fax 808 973 2253
kahua paʻa web hawaiitourismauthority.org

David Y. Ige
Governor

Ronald Williams
Chief Executive Officer

Testimony of
Ronald Williams
President and Chief Executive Officer
Hawaiʻi Tourism Authority
on
H.B. No. 833
Relating to Taxation
House Committee on Tourism
Wednesday, February 18, 2015
9:30 a.m.
Conference Room 312

The Hawaii Tourism Authority offers the following comments on H.B. 833, which proposes to set the allocation of transient accommodations tax (TAT) revenues to the counties at $103 million.

In 2014, the Legislature established a state-county working group to submit recommendations on the appropriate allocation of TAT revenues between the State and counties that properly reflects the duties and responsibilities relating to the provision of public services. We feel, therefore, that rather than make changes to the allocation of TAT revenues, the working group be given the time to do their analysis and submit their report to the Legislature.

Mahalo for the opportunity to offer these comments.

WRITTEN ONLY

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON TOURISM
ON
HOUSE BILL NOS. 197, 373, 833 AND 403

February 18, 2015

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX
RELATING TO TAX

The following measures on this agenda all attempt to address in various ways, the issue of amending how the Transient Accommodations Tax (TAT) is distributed to the counties:

- House Bill No. 197 amends the amount of TAT revenues allocated to the counties from a specified sum to a percentage (44.8%) of the revenues collected.
- House Bill No. 373 amends the amount of TAT revenues allocated to the counties from a specified sum to an unspecified percentage of the revenues collected.
- House Bill No. 833 makes permanent the current amount ($103,000,000) of TAT revenues allocated for distribution to the counties - the amount is scheduled to decrease to $93,000,000 in Fiscal Year (FY) 17 and each fiscal year thereafter.
- House Bill No. 403 removes the current cap on TAT revenues to be distributed to the counties and establishes the distribution of these revenues as a percentage of the TAT collected for infrastructure and services related to increased tourism.

The Department of Budget and Finance has concerns with these four bills which may have significant impacts on the Administration's general fund financial plan. These four bills will reduce the general fund balance, thereby limiting the Administration's flexibility in dealing with fiscal contingencies and could jeopardize the Administration's biennium budget request.

As drafted, the only measure with a definitive calculable general fund impact is H.B. No. 833, which will result in a general fund loss of $10,000,000 in FY 17 and each fiscal year thereafter. Using FY 14 TAT collections ($395,241,877) as a base for FY 16 and applying the 44.8% from H.B. No. 197 and H.B. No. 403 would result in a general fund loss of $74.1 million in FY 16, and $84.1 million in FY 17 and each fiscal year thereafter.

Finally, Act 174, SLH 2014, established a State-county functions working group to make a recommendation to the Legislature on the appropriate allocation of the TAT revenues between the State and counties based on the division of duties and responsibilities in providing public services. A final report of the working group's findings and recommendations is due to the Legislature no later than 20 days prior to the convening of the regular session of 2016. We believe that until this report is submitted, a change in the current distribution would be premature.

COUNTY COUNCIL
Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Mason K. Chock
Gary L. Hooser
Arryl Kaneshiro
KipuKai Kuali'i
JoAnn A. Yukimura

OFFICE OF THE COUNTY CLERK

Ricky Watanabe, County Clerk
Jade K. Fountain-Tanigawa, Deputy County Clerk

Telephone (808) 241-4188
Fax (808) 241-6349
Email cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Līhu'e, Kaua'i, Hawai'i 96766

February 17, 2015

TESTIMONY OF MEL RAPOZO
COUNCIL CHAIR, KAUA'I COUNTY COUNCIL
ON
HB 833, RELATING TO TAXATION
Committee on Tourism
Wednesday, February 18, 2015
9:30 a.m.
Conference Room 312

Dear Chair Brower, and Members of the Committee:

Thank you for this opportunity to submit testimony in opposition of HB 833, relating to taxation and the Transient Accommodations Tax (TAT). My testimony is submitted in my individual capacity as Council Chair of the Kaua'i County Council.

HB 833 makes permanent the current amount of TAT revenues distributed to the Counties.

Supporting tourism is of great importance for our economy, as the visitor industry is considered one of the largest industries on Kaua'i. County government services such as public safety, parks maintenance, and public works are crucial in providing much needed services for not only residents but visitors as well.

On Kaua'i, visitors comprise of approximately 21% of the total population each day. According to the Kaua'i Fire Department, 85% of ocean rescues, 72.74% of our flight operations, and 20.35% of all other calls for service were attributed to visitors.

Prior to 2011, the Counties were receiving 44.8% of the revenues collected for TAT. It was then capped at $93 million, pursuant to Act 103, Session Laws of Hawai'i (SLH) 2011, and then made permanent by Act 161, SLH 2013. The State then increased the cap to $103,000,000. However, the Counties are still losing millions of dollars of revenue annually, and is evident in the tremendous increase in TAT collections each year.

For Fiscal Year 2014-2015, the amount of TAT revenues allocated for Kaua'i is $14,935,000, which is approximately thirteen percent (13%) of our General Fund budget. This allocation supports essential services provided by our County as well as grants for tourism related activities.

If the cap is removed and the 44.8% allocation is restored, the Counties will be able to fund much needed government services for our islands, and will be able to financially support the substantial collective bargaining increases that were approved recently for both the Fire and Police Departments.

I understand that the State formed a State-County Functions Working Group to evaluate the distribution of the TAT revenues. However, to support the continuance of these vital public services, I respectfully ask this Committee to amend this measure by restoring the 44.8% allocation back to the Counties. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

MEL RAPOZO
Council Chair, Kaua'i County Council

Council Chair
Mike White

Vice-Chair
Don S. Guzman

Presiding Officer Pro Tempore
Michael P. Victorino

Councilmembers
Gladys C. Baisa
Robert Carroll
Elle Cochran
Don Couch
Stacy Crivello
Riki Hokama

Director of Council Services
David M. Raatz, Jr., Esq.

COUNTY COUNCIL

COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 17, 2015

TO: The Honorable Tom Brower, Chair
House Committee on Tourism

FROM: Mike White
Council Chair

SUBJECT: **HEARING OF FEBRUARY 18, 2015; TESTIMONY IN OPPOSITION TO HB 833, RELATING TO TAXATION**

Thank you for the opportunity to testify in **opposition** of this measure. The purpose of this bill is to make $103 million the permanent allocation of transient accommodations tax for distribution to the counties.

The Maui County Council has not had the opportunity to take a formal position on this bill. Therefore, I am providing this testimony in my capacity as an individual member of the Council.

In addition to serving as chair of the Maui County Council, my testimony is also informed by my visitor industry experience as general manager of the Ka'anapali Beach Hotel for 29 years, and through my service as a state legislator from 1993 to 1998.

I oppose this measure for the following reasons:

1. The TAT cap was understood to be a temporary measure to assist the State with a budget shortfall because of a 9.8 percent drop in tax revenues in 2009. Beginning in 2010, the State's revenue collections began to recover.

   In July 2011, the State capped the counties' share of the TAT at a time when the counties' property values had dropped significantly, which resulted in declining property tax collections.

   Since this no longer appears to be a temporary measure, it is critical for the State to revisit the distribution ratios to address the negative impacts to counties'. As shown in the following chart, the State has increased its share of the TAT distribution by $179 million since 2007, while TAT collections have increased by only $170 million during the same period:

	TAT Received		*Change*	
	2007	*2014*	*$*	*%*
Convention Center	$38.9M	$33.0M	**-$5.9M**	**-15.2%**
Tourism Special Fund	$76.9M	$71.0M	**-$5.9M**	**-7.7%**
Oahu	$44.4M	$45.4M	**$1.0M**	**2.2%**
Maui	$23.0M	$23.5M	**$0.5M**	**2.2%**
Hawaii	$18.7M	$19.2M	**$0.4M**	**2.2%**
Kauai	$14.6M	$14.9M	**$0.3M**	**2.2%**
State of Hawaii	*$8.3M*	*$188.2M*	***$179.9M***	***2161.7%***

Effectively, ***the State of Hawaii has increased its distribution by 2161.7 percent***, while the *counties' were increased by a meager 2.2 percent.* Both the Convention Center and Tourism Special Fund are receiving significantly less than in previous years.

2. Local governments bear a significant responsibility for providing a wide-array of services and infrastructure necessary to support a vibrant visitor industry. For that reason, hotel room taxes like the TAT are established as municipal or county taxes throughout the nation.

   While the State has taken a greater share of the TAT for itself, the cost of core services provided to our residents and visitors have continued to increase. On average, costs for core services in Maui County from 2007 to 2014, ***increased 33 percent*** or around $27 million, yet Maui County has only received an increase in TAT revenue of $508,623 or 2.2 percent over the same period.

	Cost increases		*Change*	
	2007	*2014*	*$*	*%*
Fire	$21.9M	$29.9M	**$7.9M**	**36.1%**
Parks	$23.7M	$29.9M	**$6.2M**	**26.5%**
Police	$37.9M	$50.5M	**$13.1M**	**35.3%**

It is often stated that counties should increase their property tax rates. *We have done exactly that* in response to declining property values. Maui County has *reduced* exemptions and *increased* tax rates over the last five years. The result is an ***increase of 29 percent*** in the effective tax rate per $1,000 of property value. Along with our property taxes, the TAT distribution provides critical support for visitor-related infrastructure and operating expenses.

3. For the neighbor islands, the TAT distribution is particularly important because our economic regrowth continues to lag behind that of Oahu. Additionally, visitors make up a much larger portion of the de facto population. The increase in the cap last year was much appreciated, but ***fairness dictates that more should be done***. It is simply not right for the State to have helped itself to a tax meant to benefit the counties'. With the State receiving 23 times more than in 2007 and the counties' getting an increase of just 2.2 percent, it is only fair and appropriate for more parity and balance in the TAT distribution.

For the foregoing reasons, I **oppose** this measure.

DENNIS "FRESH" ONISHI
Council Member
District 3

PHONE: (808) 961-8396
FAX: (808) 961-8912
EMAIL: *donishi@co.hawaii.hi.us*

HAWAIʻI COUNTY COUNCIL
25 Aupuni Street, Hilo, Hawaiʻi 96720

February 17, 2014

The Honorable Tom Brower, Chair
and Members of the Committee on Tourism

Dear Chair Brower and Members of the Committee,

Thank you for the opportunity to provide testimony strongly supporting House Bill No. 833, which permanently allocates $103,000,000 in transient accommodations tax revenue to the counties.

According to Conference Committee Report No. 207 (1990), the purpose of Act 185 was to provide a more equitable method of sharing state revenues with the counties, rather than continuing with the system that existed at the time whereby the counties requested financial assistance through grants-in-aid from the State.

The counties' share of the tax is a stabilizing force for county finances, providing for improved budgeting and planning as well as ongoing efforts for county government to enhance visitor satisfaction.

Approving House Bill No. 833 would put the counties in a better position to effectively budget based on a permanent allocation of $103,000,000.

Thank you for your consideration and the opportunity to provide testimony in support of this measure.

Sincerely,

Dennis "Fresh" Onishi
Hawaiʻi County Council Member

COUNTY COUNCIL
Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Mason K. Chock
Gary L. Hooser
Arryl Kaneshiro
KipuKai Kualiʻi
JoAnn A. Yukimura

OFFICE OF THE COUNTY CLERK

Ricky Watanabe, County Clerk
Jade K. Fountain-Tanigawa, Deputy County Clerk

Telephone (808) 241-4188
Fax (808) 241-6349
Email cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Līhuʻe, Kauaʻi, Hawaiʻi 96766

February 17, 2015

TESTIMONY OF KIPUKAI KUALIʻI
COUNCILMEMBER, KAUAʻI COUNTY COUNCIL
ON
HB 833, RELATING TO TAXATION
Committee on Tourism
Wednesday, February 18, 2015
9:30 p.m.
Conference Room 312

Dear Chair Brower and Committee Members:

Thank you for this opportunity to submit testimony in opposition of HB 833, relating to Taxation. My testimony is submitted in my capacity as the Economic Development & Intergovernmental Relations Committee Chair and as an individual Councilmember of the Kauaʻi County Council.

HB 833 makes permanent the current amount of Transient Accommodations Tax (TAT) revenues allocated for distribution to the Counties.

Kauaʻi is a unique place and attracts many visitors annually. Each day, visitors comprise of approximately twenty one percent (21%) of the total population. The visitor industry is considered one of the largest industries on Kauaʻi, and promoting tourism and tourism related activities in our islands are of great importance for our economy.

It is important to note that the County also provides public safety, parks maintenance, and public work services for visitors as well. Restricting the use of TAT revenues received will hinder the Counties ability to fund much needed government services for our islands. For Fiscal Year 2014-2015, the amount of TAT revenues allocated for Kauaʻi is $14,935,000, which is approximately thirteen percent (13%) of our General Fund budget. This allocation supports essential services provided by our County as well as grants for tourism related activities.

Any reduction of the TAT revenue to the Counties will significantly impact the services that the County is able to provide for residents and visitors alike. Without TAT revenues, the Counties will need to consider increasing fees and/or Real Property Taxes significantly to cover these expenses. This will be an additional challenge for the Counties who are already dealing with the substantial collective bargaining increases that were recently approved for both Fire and Police Department personnel.

Furthermore, prior to 2011, the Counties were receiving 44.8% of the revenues collected for TAT. It was then capped at $93 million, pursuant to Act 103, Session Laws of Hawai‘i (SLH) 2011, and then made permanent by Act 161, SLH 2013. The capped amount was further amended to $103 million. This resulted in millions of dollars of lost revenue to the Counties, and is evident in the tremendous increase in TAT collections each year. I ask that the Committee consider amending the amount allocated to the Counties back to the 44.8% or a larger percentage, which will allow the Counties to continue to provide much needed services and will be a more fair distribution of TAT revenues across the State. Please do not permanently cap the distributed amount to the Counties at $103 million, lower the percentage, or decrease the amount of revenue distributed to the Counties, as this will significantly impact the vital services that the County provides.

For the reasons stated above, I strongly encourage the House Committee on Tourism to amend HB 833 to remove the capped amount distributed to the Counties and consider the comments provided above. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

KIPUKAI KUALI‘I
Councilmember, Kaua‘i County Council

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: TRANSIENT ACCOMMODATIONS, Distribution to counties

BILL NUMBER: HB 833

INTRODUCED BY: San Buenaventura, Evans, Ichiyama, Ing, McKelvey, Mizuno and 1 Democrat

BRIEF SUMMARY: Amends HRS section 237D-6.5(b)(3) to provide that $103 million in transient accommodations tax (TAT) revenues shall be distributed to the counties in each fiscal year.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature in Act 103, SLH 2011, due to the dire financial condition of the state at the time, limited the distribution of TAT revenues to the counties at $93 million, with the residual TAT revenue being deposited into the state general fund. Although Act 103 provided that the $93 million limitation was to sunset on June 30, 2015, the legislature in Act 161, SLH 2013, changed the distribution of TAT revenue from a percentage basis to a specific dollar amount and not only left the $93 million limit of TAT revenues distributed to the counties, but made it (and the 9.25% TAT rate) permanent by repealing the June 30, 2015 sunset date. In 2014, the legislature by Act 174 provided that the counties will receive $103 million in fiscal 2015 and fiscal 2016, and $93 million in fiscal 2017 and thereafter, pending the report of a blue-ribbon panel that was to study the county impact and render its final report before the opening of the 2016 legislature. This measure would provide that the counties receive the increased amount of $103 million permanently.

In their testimony last year, the counties argued that they wanted a more stable revenue base. Well, as one representative pointed out, a fixed dollar amount per year is stable. What the counties really want is more money, and a lot of it.

What this proposal underscores is the fact that county governments have grown well beyond their means and are searching for more available revenue. The counties have justified their share of the TAT by rationalizing that the funds go to pay for the impact visitors have on county facilities and services; however, at the same time all four counties have managed to impose much higher tax rates on hotel/resort real property and in one case a special rate on resort time share property.

The search for more and higher taxes has to stop somewhere. Both levels of government need to resize their operations and set priorities for what limited resources taxpayers can share with government.

Digested 2/17/15