

DAVID Y. IGE
GOVERNOR



WRITTEN ONLY

WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2987, S.D. 1**

February 29, 2016
1:30 p.m.

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Senate Bill No. 2987, S.D. 1, increases the allocation of transient accommodations tax (TAT) revenues to the counties from \$93 million to \$103 million for FY 17 and beyond. The bill also establishes a State-County Functions Working Group on July 1, 2022, to evaluate the division of duties and responsibilities between the State and counties and to submit a report of its findings and recommendations on the appropriate allocation of TAT revenues to the counties 20 days prior to the convening of the Regular Session of 2023.

The Department of Budget and Finance believes that increasing the county's fixed share of the TAT revenues as proposed in this bill is preferable to the recommendation proposed by the State-County Functions Working Group Report, dated December 2015.

The department also believes that the establishment of a second working group is unnecessary.

William P. Kenoi
Mayor



Walter K.M. Lau
Managing Director

Randall M. Kurohara
Deputy Managing Director

County of Hawai'i Office of the Mayor

25 Aupuni Street, Suite 2603 • Hilo, Hawai'i 96720 • (808) 961-8211 • Fax (808) 961-6553
KONA: 74-5044 Ane Keohokālole Hwy., Bldg. C • Kailua-Kona, Hawai'i 96740
(808) 323-4444 • Fax (808) 323-4440

February 29, 2016

The Honorable Jill Tokuda, Chair
and Members of the Senate Committee on Ways and Means
415 South Beretania Street
Hawai'i State Capitol, room 211
Honolulu, Hawai'i 96813

Aloha, Chair Tokuda and distinguished committee members:

Mahalo for this opportunity to express our concerns on SB 2987, SD 1 RELATING TO
TRANSIENT ACCOMMODATIONS TAX.

The hospitality industry is critically important to our state, especially for the thousands of working families that rely on visitors both directly and indirectly for their livelihoods. We thank the Legislature for recognizing the importance of county facilities and services in supporting and enhancing the visitor experience.

While we all share the goal of a vibrant visitor industry, a TAT cap that does not grow with the industry unfairly burdens the counties. The counties' cost to provide services to our visitors is not stagnant. When a visitor calls for law enforcement help, a county police officer responds. When a visitor gets into trouble in the ocean, county lifeguards or firefighters respond. When a visitor uses sewer and water service, those are county services. Visitors travel on county roads, and use county parks. As the visitor count grows, their demands on county resources also grow. The counties' share of TAT should grow with increased tourism demands not remain stagnant.

The State-County Functions Working Group, created by the 2014 Legislature, consisted of representatives from the state, counties, and visitor industry. They evaluated the division of responsibilities between the state and counties relating to the provision of public services, and recommended an appropriate allocation of transient accommodations tax revenue that properly reflects that division.

The Honorable Jill Tokuda, Chair

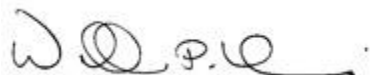
February 29, 2016

Page 2

We thank the working group for their careful, detailed research and consideration of the issues, as well as their work in compiling their report. We defer to the working group's recommendations and urge the Legislature to support their recommendations.

Mahalo for your consideration.

Aloha,

A handwritten signature in dark ink, appearing to read "W. P. Kenoi", followed by a horizontal line.

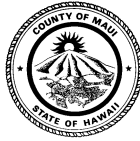
William P. Kenoi
MAYOR

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 27, 2016

TO: The Honorable Jill N. Tokuda, Chair
Senate Committee on Ways and Means

FROM: Mike White
Council Chair

A handwritten signature in black ink, appearing to be "Mike White", is written over the printed name and title.

SUBJECT: **HEARING OF FEBRUARY 29, 2016; TESTIMONY IN OPPOSITION TO
SB 2987 SD1, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in **opposition** to this measure. The purposes of this measure are to establish an annual allocation of Transient Accommodations Tax revenue to the counties in the amount of \$103 million and to create a State-County Functions Working Group on July 1, 2022 to recommend the appropriation allocation of TAT revenue between the State and counties.

The Maui County Council on Friday adopted Resolution 16-15 (attached), urging the Legislature to provide the counties with the same share of transient accommodations tax revenue as the State. Therefore, I am providing this testimony on behalf 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 30 years and through my service as a State legislator from 1993 to 1998, in addition to my tenure on the Maui County Council over the last five years.

I oppose this measure for the following reasons:

1. This measure would codify the ill-advised policy that the allocation of TAT revenue to the counties should be based on the proportionate expenditures by the State and the counties for all public services. This contradicts the conceptual and legal bases for the TAT, which was established to help the counties fund the visitor-related expenses based on a percentage of earned revenue.
2. The State-County Functions Working Group created under Act 174 (2014) issued a report that found the counties are responsible for 54 percent of net expenditures directly related to tourism, and the State provides 46 percent.

February 27, 2016

Page 2

3. The policy for TAT revenue distribution should again be based on a formula that returns a set percentage of revenue to the counties where it is earned, rather than a fixed amount of money. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change the statute. A fixed-distribution policy gives the wrong impression that returning TAT revenue to the counties is a sort of charitable donation and requires the counties to beg the Legislature for more money as visitor-related expenses grow.

For the foregoing reasons and those outlined in Maui County Council Resolution 16-15, **we oppose** this measure.

ocs:proj:legis:16legis:16testimony:SB2987_SD1_paf16-037a_srs

Attachment

Resolution

No. 16-15

URGING THE LEGISLATURE TO PROVIDE THE COUNTIES WITH THE SAME SHARE OF TRANSIENT ACCOMMODATIONS TAX REVENUE AS THE STATE

WHEREAS, since 1987, the State of Hawaii has had a tax upon room revenues derived from transient accommodations, known as the Transient Accommodations Tax, or TAT; and

WHEREAS, pursuant to Act 185 (1990), the TAT rate was set at 5 percent, with 95 percent of revenue returned to the counties under a statutorily established formula and the State retaining 5 percent for administrative purposes; and

WHEREAS, if the distribution to the counties were still based on the same calculation, the counties' share would amount to \$216 million at current revenue levels; and

WHEREAS, the State subsequently diminished the counties' share of TAT revenue at various times for multiple purposes, such as revenue being redirected to the Hawaii Convention Center and the Tourism Special Fund, respectively; and

WHEREAS, after allocations to the Hawaii Convention Center and the Tourism Special Fund, the counties share of TAT revenues was adjusted to 44.8 percent of the total, which would amount to \$188 million if calculated under current revenues; and

WHEREAS, the Legislature dramatically reallocated TAT revenue beginning in 2009 to help balance the State budget due to the economic downturn; and

WHEREAS, the State began the process of increasing the TAT, arbitrarily capping the counties' share to help balance its budget, but offered no assistance as the counties also experienced economic hardship in the ensuing years; and

WHEREAS, Maui County's property values, which form the economic base for the County's tax revenue, dropped nearly 25 percent during the economic downturn; and

Resolution No. 16-15

WHEREAS, since 2007, the State's TAT revenue increased by \$196.6 million, or 2,363 percent, while the counties' TAT revenue increased by only \$2.2 million, or 2.2 percent; and

WHEREAS, during the same period, the counties have incurred \$170 million in cost increases in fire, police, and park services; and

WHEREAS, a *Civil Beat* article entitled "Should Counties Get Bigger Share Of Hotel Tax Revenue?" reported the following on December 30, 2015:

The state has hauled in record amounts of TAT revenue over the past few years by limiting the counties' allocation. Without the cap, the counties would have seen millions of additional dollars as the tourism industry has grown; and

WHEREAS, TAT revenue for Fiscal Year ("FY") 2016 is expected to be about \$450 million; and

WHEREAS, the counties use TAT revenue to cover a portion of their visitor-related expenditures, as they bear significant responsibility for providing an array of services and infrastructure necessary to support a vibrant visitor industry; and

WHEREAS, the vast inequity in TAT-revenue distribution between the State and the counties has resulted in the costs of tourist-related expenses being unfairly passed on to county residents; and

WHEREAS, according to the "2015 HVS Lodging Tax Report – USA," which surveyed 150 cities, counties, and special districts, 35 municipalities receive 100 percent of revenue from taxes on lodging, 127 receive 50 percent or more, and 148 receive at least 25 percent; and

WHEREAS, the four Hawaii counties would rank 150th in percent of revenue from taxes on lodging, if included in the report; and

WHEREAS, the State-County Functions Working Group, created by Act 174 (2014) to study TAT-revenue distribution, issued its Final Report in December 2015; and

Resolution No. 16-15

WHEREAS, the Working Group's Final Report recommended: (1) about \$113 million of TAT revenue be allocated to four State special purposes (the Hawaii Convention Center, the Tourism Special Fund, the Turtle Bay conservation easement, and the Special Land Development Fund); and (2) of the remaining TAT revenue, 55 percent be allocated to the State and 45 percent shared by the counties, without the imposition of a arbitrary cap; and

WHEREAS, history and data support a more appropriate and equitable distribution, with the State and the counties each getting equal allocations of TAT revenue; and

WHEREAS, when the General Excise Tax is also taken into account, the State currently provides a mere 17 percent of overall lodging-related revenue to the counties; and

WHEREAS, the State has adequate resources to make the adjustment because General Fund revenues for FY 2017 are projected to be more than \$7.1 billion; and

WHEREAS, revenues have increased year over year, amounting to \$547 million over FY 2016, or 8.3 percent; \$825 million over FY 2015, or 13.1 percent; and \$1.1 billion over FY 2014, or 19.2 percent; now, therefore,

BE IT RESOLVED by the Council of the County of Maui:

1. That it commends the State-County Functions Working Group for its research and deliberations;
2. That it supports a portion of the Working Group's findings, including the elimination of the arbitrary cap on the distribution of Transient Accommodations Tax revenue to the counties;
3. That it does not support the recommended distribution in the Working Group's Final Report;
4. That it urges the State Legislature to enact legislation providing the counties with a 50 percent share of total TAT revenue, with the State retaining responsibility to fund the

Resolution No. 16-15

Hawaii Convention Center, the Tourism Special Fund, the Turtle Bay conservation easement, and the Special Land Development Fund out of the State's share of TAT revenue;

5. That an equal split of TAT revenue between the State and the counties would be more consistent with the TAT's history and purpose, promote more fairness for county taxpayers, and promote a viable, sustainable visitor industry; and
6. That certified copies of this resolution be transmitted to the Honorable David Ige, Governor, State of Hawaii; the Honorable Shan S. Tsutsui, Lieutenant Governor, State of Hawaii; the Honorable Ronald D. Kouchi, President, Hawaii State Senate; the Honorable Joseph M. Souki, Speaker, Hawaii State House of Representatives; Members of the Hawaii State Senate; Members of the Hawaii State House of Representatives; the Hawaii Council of Mayors; and Members of the Hawaii State Association of Counties.

COUNCIL OF THE COUNTY OF MAUI

WAILUKU, HAWAII 96793

CERTIFICATION OF ADOPTION

It is HEREBY CERTIFIED that RESOLUTION NO. 16-15 was adopted by the Council of the County of Maui, State of Hawaii, on the 26th day of February, 2016, by the following vote:

MEMBERS	Michael B. WHITE Chair	Donald S. GUZMAN Vice-Chair	Gladys C. BAISA	Robert CARROLL	Eleanora COCHRAN	Donald G. COUCH, JR.	S. Stacy CRIVELLO	G. Riki HOKAMA	Michael P. VICTORINO
ROLL CALL	Aye	Excused	Aye	Aye	Aye	Excused	Aye	Aye	Excused


COUNTY CLERK

Hawai'i State Association of Counties (HSAC)

Counties of Kaua'i, Maui, Hawai'i and City & County of Honolulu

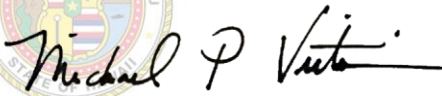
200 S. High Street, Wailuku, Hawaii 96793 (808) 270-7665

www.hicounties.com



February 26, 2016

TO: The Honorable Jill N. Tokuda, Chair
Senate Committee on Ways and Means

FROM: Michael P. Victorino
HSAC President 

SUBJECT: **HEARING OF FEBRUARY 29, 2016; TESTIMONY IN OPPOSITION TO
SB 2987 SD1, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify on behalf of the Hawaii State Association of Counties in **opposition** to this measure. The purposes of this measure are to establish an annual allocation of Transient Accommodations Tax revenue to the counties in the amount of \$103 million and to create a State-County Functions Working Group on July 1, 2022 to recommend the appropriation allocation of TAT revenue between the State and counties.

HSAC opposes this measure for the following reasons:

1. It is the best interest of Hawaii residents for the counties to receive a formula-based percentage of the TAT rather than a fixed or capped amount. The proposed capped amount is not adequate to provide services in response to growing visitor demands. HSAC supports increasing the counties' share of the TAT.
2. The State-County Functions Working Group created under Act 174 (2014) has conducted a thorough study of the history and purpose of the TAT. The Working Group has concluded it would be fair for the counties to get 45 percent of available TAT revenue, with the State getting 55 percent. Creating another Working Group at taxpayers' expense is unnecessary.

Mahalo for your consideration.

HSAC:FY2016:16Testimony:SB2987 SD1a_mkz

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 300 * HONOLULU, HAWAII 96813
PHONE: (808) 768-4141 * FAX: (808) 768-4242 * INTERNET: www.honolulu.gov



KIRK CALDWELL
MAYOR

ROY K. AMEMIYA, JR.
MANAGING DIRECTOR DESIGNATE

GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR

CITY AND COUNTY OF HONOLULU
BEFORE THE SENATE COMMITTEE ON
WAYS AND MEANS

Monday, February 29, 2016, 1:30 P.M.

TO: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

The Office of the Mayor of the City and County of Honolulu recommends that SB 2987, SD1 be held until the findings and recommendations of the State-County Functions Working Group (Working Group) on the Transient Accommodations Tax (TAT) have been fully vetted and considered. The Working Group established by the Legislature in Act 174, Session Laws of Hawaii 2014, has worked for over a year on the allocation of the TAT and recently submitted its findings and recommendations to the Legislature. We urge your committees to consider those global recommendations before considering the contents of SB 2987, SD1.

If, however, your committees decide to move forward with SB 2987, we would ask that you consider the following comments: (1) Although we appreciate the Senate considering making permanent the annual allocation of \$103,000,000 of TAT to the counties, we ask that the allocation be tied to an index, such as the Consumer Price Index, going forward; (2) We recommend that the next Working Group get started as soon as possible. The bill currently has the group convening on July 1, 2022, which is six years from now. The allocation of the TAT is too important to be put off for so long; (3) We urge that the Senate be as clear as possible as to the directions to the new Working Group. SB 2987, SD1 uses similar language to that in Act 174, SLH 2014. Those directions proved misleading to the Working Group established under Act 174, SLH 2014, and clear legislative intent is important; and (4) Finally, we ask that the new Working Group consider the revenues available to the various levels of government, not just the expenditures.

Thank you for the opportunity to provide comments on this important measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Allocations to Counties

BILL NUMBER: SB 2987, SD-1

INTRODUCED BY: Senate Committees on Tourism and International Affairs and Public Safety, Intergovernmental, and Military Affairs

EXECUTIVE SUMMARY: Makes permanent the annual \$103,000,000 allocation of transient accommodations tax revenues to the counties. Requires the establishment of a state-county functions working group in 2022 to re-evaluate the division of revenue. The counties wanted stable, predictable revenue. They get it in this bill.

BRIEF SUMMARY: Amends HRS section 237D-6.5 to distribute TAT revenues in the following priority order:

- \$1.5 million for the Turtle Bay conservation easement special fund;
- \$26.5 million for the convention center enterprise special fund;
- \$82 million for the tourism special fund;
- \$103 million to be distributed among the counties in specified percentages (subject to sequestration if the counties do not make required contributions to ERS and/or EUTF):
 - Kauai county, 14.5% (of the 45%);
 - Hawaii County, 18.6%;
 - City and County of Honolulu, 44.1%;
 - Maui County, 22.8%; and
- \$3 million to the special land and development fund.
- Any revenues remaining would go to the State general fund.

Establishes a state-county functions working group to be formed on July 1, 2022, similar to that formed by Act 174, SLH 2014. This group shall cease to exist upon the adjournment of the regular legislative session of 2023.

EFFECTIVE DATE: June 22, 2026.

STAFF COMMENTS: In law prior to 2009, the TAT was levied at the rate of 7.25% on most transient accommodations. Once collected, the tax, after satisfying specified earmarks, was distributed 44.8% to the counties. Act 61, SLH 2009, increased the TAT rate to 8.25% between 7/1/09 and 6/30/10 and to 9.25% between 7/1/10 to 6/30/15. Act 161, SLH 2013, made

permanent the TAT rate of 9.25% and changed the allocations of TAT from a percentage basis to a specific dollar amount of \$93 million to be shared among the counties.

After the counties complained about their allocations, Act 174, SLH 2014, required a state-county functions working group to be convened to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services and to recommend an 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. In the meantime, the fixed amount to the counties was increased to \$103 million for fiscal years 2015 and 2016, with the amount to drop back down to \$93 million on July 1, 2016.

The working group submitted a report and recommendation, the latter of which was introduced as HB 1554 and SB 2028 in the current session. The bill rejects that recommendation and keeps the \$103 million cap on the county allocations until 2022.

In several of the hearings in previous years, the counties insisted on having a stable, predictable source of funding. This bill will give them a fixed number for five years or so. Wouldn't that be stable and predictable? Perhaps the moral of the story is to be careful what you wish for.

Digested 2/26/16

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 28, 2016

TO: Honorable Jill N. Tokuda, Chair
Senate Committee on Ways and Means

FROM: STACY HELM CRIVELLO
Councilmember

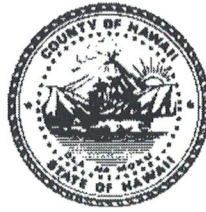
A handwritten signature in cursive script, reading "Stacy Helm Crivello", is written over the printed name.

DATE: February 29, 2016

SUBJECT: **SB 2987 S.D. 1, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

I **oppose** SB 2987, SD1 for the reasons cited in testimony submitted by the Maui County Council Chair, and urge you to **oppose** this measure.

Margaret Wille
Council Member
District 9 - North and South Kohala



Phone No. Hilo: (808) 961-8027
Phone No. Waimea: (808) 887-2043
Fax No.: (808) 887-2072
E-Mail: mwille@co.hawaii.hi.us

HAWAI'I COUNTY COUNCIL

County of Hawai'i

Hawai'i County Building
25 Aupuni Street
Hilo, Hawai'i 96720

Holomua Center
64-1067 Mamalahoa Highway, Suite C-5
Waimea, Hawai'i 96743

West Hawai'i Civic Center Bldg. A
74-5044 Ane Keohokalole Hwy.
Kailua-Kona, Hawai'i, 96740

February 27, 2016

To: Honorable Jill Tokuda

Re: Testimony in **OPPOSITION** to SB 2987 Relating to the TAT

Date of hearing: March 1, 2016 1:30 pm

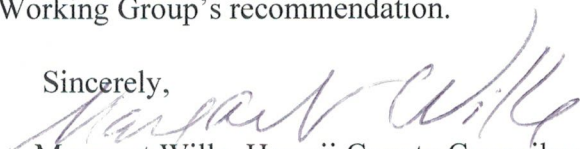
I am outraged by SB 2987 – capping the Counties' portion of the TAT revenues at \$103 million. Shameful!

Not so long ago when the State's economy was tanking (so too the Counties' economies) you – our State legislators – said to the Counties, the State would temporarily usurp most of the TAT revenues and place a low cap the Counties portion, **BUT** the promise at that time was that as soon as the economy was on the upswing that 44.8% percentage (no cap) allocation of the TAT revenues would go back to the Counties.

Then when the TAT revenues did rebounded, you – our State legislators – refused to remove the cap. As a result the State's portion of the TAT revenues increased by over 2000 % and the Counties portion increased by 2.2%. Next the Legislature set up the State-County Working Group to determine the proportionate share of tourism related expenditures and recommend the appropriate allocation of TAT revenue between State and Counties. Given the additional appointment of State –slated industry representatives and a State – slanted consultant, the final recommendation of the Working Group was clearly slanted in favor of the State. (The cost of this State-County Working Group was totally subtracted from the County's capped allocation!)

Yet as slanted in favor of the State as is the Working Group's report and recommendation, unbelievably SB2987 challenges that recommendation with lame arguments in favor of retaining the \$103 million cap to be split between the Counties. I am outraged!! Senator Tokuda and any other state legislators supporting this bill should be ashamed. Please instead at least support the Working Group's recommendation.

Sincerely,


Margaret Wille, Hawaii County Councilmember
Council District 9 North & South Kohala

Cc: Dru Kanuha, Chair Hawaii County Council

*Serving the Interests of the People of Our Island
Hawai'i County Is An Equal Opportunity Provider And Employer*

From: mailinglist@capitol.hawaii.gov
To: [WAM Testimony](#)
Cc: robert.carroll@mauicounty.us
Subject: Submitted testimony for SB2987 on Feb 29, 2016 13:30PM
Date: Friday, February 26, 2016 4:26:38 PM

SB2987

Submitted on: 2/26/2016

Testimony for WAM on Feb 29, 2016 13:30PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
robert carroll	Individual	Oppose	No

Comments: I strongly oppose this measure. Please hold off action until the State-County Functions Working Group thoroughly vet the TAT provision. The City and County of Honolulu has also sent testimony in opposition. Chair White of Maui will be sending testimony in opposition as well.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov