

DAVID Y. IGE
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

Testimony of
CARTY S. CHANG
Interim Chairperson

Before the Senate Committees on
TOURISM AND INTERNATIONAL AFFAIRS
and
WATER AND LAND
and
PUBLIC SAFETY, INTERGOVERNMENTAL AND MILITARY AFFAIRS

Wednesday, February 18, 2015
2:15 PM
State Capitol, Conference Room 225

In consideration of
SENATE BILL 534
RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Senate Bill 534 proposes a number of amendments related to the Transient Accommodations Tax (TAT) including distribution to the Department of Land and Natural Resources (Department). The Department's testimony is limited to those sections related to the Department. **As such, while the Department appreciates the intent of this bill, the Department recommends amendments be made.**

This bill, in part, proposes to:

- Allocate a percentage of TAT revenues to the State Parks Special Fund and to the Special Land and Development Fund.
- Require TAT revenues deposited into the Special Land and Development Fund to be expended subject to mutual agreement of the Board of Land and Natural Resources and the Board of Directors of the Hawaii Tourism Authority (HTA) in accordance with the Hawaii Tourism Strategic Plan.
- Transfer a portion of the amounts deposited into the Special Land and Development Fund to the Beach Restoration Special Fund and appropriates those funds as matching funds for the

CARTY S. CHANG
INTERIM CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

DANIEL S. QUINN
INTERIM FIRST DEPUTY

W. ROY HARDY
ACTING DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

environmental impact statement associated with the planned beach nourishment project at Kapua on the Island of Hawaii. Require the Department and the HTA to seek additional or supplemental funding from the counties, federal government, and private entities to accomplish the purposes of this Act.

The Department recommends amendments to this measure as follows:

- On page 1, line 17, reference to section 237D-6.5(b)(2), Hawaii Revised Statutes (HRS), should be changed to section 237D-6.5(b)(5), HRS, or section 237D-6.5(b)(6)(B), HRS, if this bill as drafted is enacted into law.
- On page 2, lines 16-19, this proposed language should be deleted as the Department prefers that its expenditures not be subject to the mutual agreement of the HTA, but rather in accordance with the HTA strategic plan.
- On page 8, lines 18-21 and page 9, line 1, this existing language should be deleted as this language currently precludes the Department from accessing the \$3,000,000 in TAT funds deposited into the General Fund to be allocated to the Department. The Department prefers:

(5) ~~[Of the excess revenues deposited into the general fund pursuant to this subsection,~~ \$3,000,000 shall be allocated ~~[subject to the mutual agreement of the board of land and natural resources and the board of directors of the Hawaii tourism authority in accordance with the Hawaii tourism authority strategic]~~ to the special land and development fund to be expended pursuant to title 12 and in accordance with the [Hawaii tourism authority] long-range strategic plan for tourism developed by the Hawaii tourism authority for:

- On page 9, beginning on line 12, the bill specifies that 1% of the TAT revenue not to exceed \$4 million shall go to the Department with \$2 million going to the State Parks Special Fund, and the balance to the Special Land and Development Fund for specific uses. Further, the funds identified to be deposited into the State Parks Special Fund must be matched dollar-for-dollar by the appropriations from the General Fund and from the county in which the park is located. The Department is concerned that, should the Counties be unable to participate, or matching general funds not be forthcoming, the TAT funds would then not be available for use in the state parks. Additionally, the variable amount for the other purposes leaves uncertainties that make budgeting subject to an unpredictable revenue amount. The Department prefers that the proposed paragraph (6) and SECTION 6 be deleted in their entirety.
- On page 11, beginning on line 9, the bill appropriates \$400,000 from the Beach Restoration Special Fund to be matched dollar-for-dollar by the County of Hawaii for a planned beach nourishment project at Kapua. While the Department appreciates the intent, the Department nonetheless has concerns over the commitment of such a large sum of money and government personnel, without having first conducted a reconnaissance survey of Kapua to

evaluate the viability of a beach restoration project there. As such, the Department prefers that SECTIONs 4 and 5 be deleted.

- Lastly, the Department prefers that the measure take effect upon approval, in order for the Department to be able to access TAT funding intended for use in the current fiscal year.

The recommended amendments above would be in concert with the language in Senate Bill 284 and Senate Bill 617, as amended, which the Department supports.

Bernard P. Carvalho, Jr.
Mayor



Sally A. Motta
Acting Director of Finance

Nadine K. Nakamura
Managing Director

DEPARTMENT OF FINANCE
County of Kaua'i, State of Hawai'i
4444 Rice Street, Suite 280, Lihu'e, Hawai'i 96766
TEL (808) 241-4200 FAX (808) 241-6529

Testimony of
SALLY A. MOTTA
Acting Director of Finance

Before the Senate Committees on
TOURISM AND INTERNATIONAL AFFAIRS
and
WATER AND LAND
and
PUBLIC SAFETY, INTERGOVERNMENTAL AND MILITARY AFFAIRS

Wednesday, February 18, 2015
2:15 PM
State Capitol, Conference Room 225

In consideration of
SENATE BILL 534
RELATING TO TRANSIENT ACCOMMODATIONS TAX

The County of Kaua'i strongly opposes SB 534 for the following reasons:

First and foremost, the bill is premature to forthcoming findings from the Transient Accommodation Tax Working Group which was established under Act 174 during last year's legislative session. The purpose to which such a group was convened is to perform a comprehensive analysis and recommendation of the TAT allocation and uses. The group is required to report back to the legislature by December 31, 2015.

Second, relative to the language contained in Section 3 (3) – “(b) Each county shall expend moneys received under this paragraph exclusively to market and promote tourism and tourism-related activities and events within the respective county; and (C) Each county shall report to the legislature annually on its expenditures pursuant to this paragraph;”

Such language is highly restrictive and fails to consider the true impact of county borne costs related to visitor accommodations. Costs that include safeguarding our beaches, fire department rescue calls, police department responses, park maintenance and improvements, impacts to our roadways, solid waste refuse increases, etc. cannot be classified into what is proposed and

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narrowly described above as “exclusively to market and promote tourism and tourism-related activities and events...”

To require that the TAT be used strictly for the marketing and promotion of tourism, it does not address the visitor impacts to our island. Who rescues are visitors who are stranded on the north shore? Who cleans the beach parks that visitors enjoy? Who pays for off-duty police officers at the festivals and events that draw visitors to our island? The County of Kauai pays for all of these services! The proposal fails to recognize the increase in cost associated with increases in visitor arrivals. Further concerns arise in what would appear to be a duplication of marketing and promotion by the counties verses those efforts currently performed by Hawai'i Tourism Authority, Hawai'i Visitor's Bureau, and Kauai Visitor's Bureau.

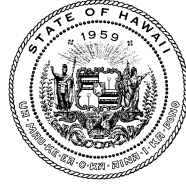
Finally, should the TAT revenues be restricted as identified in Section 3 (3) (b), the proportionate share of this loss in tax revenue, which currently helps mitigate the impacts of hosting visitors, would unfortunately be levied upon our residents in the form of higher property taxes, increased user fees, and the elimination of crucial services. Alternatively, attempting to recoup this lost TAT revenue by further increasing the resort and vacation rental tax rates could price Hawai'i out of the vacation destination marketplace and have the negative effect of reducing overall visitor counts to the state, which in turn could result in a reduction in TAT revenue to the state as well as declining resort property values for the county. We wish to avoid these potential “lose-lose” scenarios listed above by waiting for the recommendations from the Transient Accommodation Tax Working Group.

It is for these reasons that we are opposed to Bill SB534.

Thank you for this opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION

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To: The Honorable Gilbert Kahele, Chair
and Members of the Senate Committee on Tourism and International Affairs

The Honorable Laura H. Thielen, Chair
and Members of the Senate Committee on Water and Land

The Honorable Will Espero, Chair
and Members of the Senate Committee on Public Safety, Intergovernmental and
Military Affairs

Date: Wednesday, February 18, 2015
Time: 2:15 P.M.
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

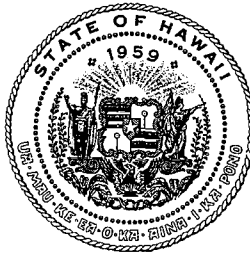
Re: S.B. 534, Relating to Transient Accommodations Tax

The Department of Taxation (Department) provides the following comments on S.B. 534 for the Committees' consideration.

S.B. 534 amends the rate of the Transient Accommodations Tax (TAT) under section 237D-2(a) to an unspecified amount. This measure also makes numerous amendments to the allocation of TAT revenues.

With respect to the TAT rate, the Department notes that the rate under section 237D-2(c) is lower than the rate under section 237D-2(a). The rate imposed by section 237D-2(a) is imposed on transient accommodation operators' gross rental income, while the rate under section 237D-2(c) is imposed on timeshare occupants. Under current law, timeshares are subject to a 7.25% rate, rather than a 9.25% rate.

Thank you for the opportunity to provide comments.



**TESTIMONY OF SIMEON R. ACOBA, CHAIR,
STATE-COUNTY FUNCTIONS WORKING GROUP, ON
SENATE BILL NO. 534,
RELATING TO TRANSIENT ACCOMMODATIONS TAX**

**Senate Committees on Tourism and International Affairs, Water and Land, and Public
Safety, Intergovernmental and Military Affairs
February 18, 2015**

Chair Kahele, Chair Thielen, Chair Espero, and Members of the Committees:

I am Simeon R. Acoba, Chair of the State-County Functions Working Group. Thank you for the opportunity to comment on Senate Bill No. 534, relating to transient accommodations tax (TAT). This measure would, among other purposes, amend the rate of the TAT beginning July 1, 2016.

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.

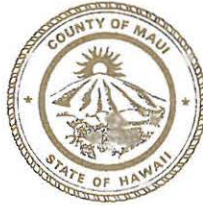
Act 174 requires the Working Group to submit two reports: 1) an Interim Report, which was delivered to the Legislature, Governor, and each of the county mayors, on December 18, 2014;

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 Senate Bill No. 534. I am available for your questions.

ALAN M. ARAKAWA
MAYOR



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Fax (808) 270-7870
e-mail: mayors.office@mauicounty.gov

OFFICE OF THE MAYOR

Ke'ena O Ka Meia
COUNTY OF MAUI – Kalana O Maui

**TESTIMONY OF ALAN ARAKAWA, MAYOR
COUNTY OF MAUI**

BEFORE THE SENATE COMMITTEE ON TOURISM AND INTERNATIONAL AFFAIRS

THE SENATE COMMITTEE ON WATER AND LAND

THE SENATE COMMITTEE ON PUBLIC SAFETY, INTERGOVERNMENTAL AND
MILITARY AFFAIRS

Wednesday, February 18, 2015

2:15 p.m.

Conference Room 225

SB 534 RELATING TO TRANSIENT ACCOMMODATIONS TAX

Honorable Gilbert Kahele, Chair, Committee on Tourism & International Affairs
Honorable J. Kalani English, Vice Chair

Honorable Laura H. Thielen, Chair, Committee on Water & Land
Honorable Brickwood Galuteria, Vice Chair

Honorable Will Espero, Chair, Committee on Public Safety, Intergovernmental &
Military Affairs
Honorable Rosalyn Baker, Vice Chair

and Honorable Members of the Respected Committees

Thank you for this opportunity to offer comments on SB 534 relating to Transient Accommodations Tax ("TAT"). For reasons provided herein-below, I feel it would be prudent to allow the "State-County Functions Working Group" to complete its work and that decision-making on TAT measures be **deferred** until the Working Group's findings and recommendations can be considered.

As this legislature knows, the counties have a long history of fighting for what we consider to be our fair share of TAT from the state. Though it's become old and tiresome having to repeatedly argue our case each year, we did so believing that the TAT revenue - the second largest source of revenue for the counties after property taxes - was slowly and surely being usurped from us via lowered percentages, caps, etc.

Act 174, Session Laws of Hawaii (SLH) 2014, created the “State-County Functions Working Group”. This 13-member working group, led by Working Group Chair Simeon Acoba, 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.

By memorandum dated December 18, 2014, the Working Group submitted to the Honorable Joe Souki, Speaker of the House of Representatives and its members, an interim report summarizing its activities of 2014 and its plans for 2015. A final report, which is to include the Working Group’s findings and recommendations, is scheduled to be submitted prior to the 2016 Regular Session.

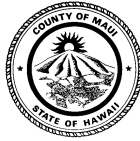
Based upon the above, we feel it would be prudent to allow the Working Group to continue its work, and that decision-making on TAT measures **be deferred** until the Working Group’s findings and recommendations can be considered.

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 Gilbert Kahele, Chair
Senate Committee on Tourism and International Affairs

The Honorable Laura H. Thielen, Chair
Senate Committee on Water and Land

The Honorable Will Espero, Chair
Senate Committee on Public Safety, Intergovernmental and Military Affairs

FROM: Mike White
Council Chair 

SUBJECT: **HEARING OF FEBRUARY 18, 2015; TESTIMONY IN OPPOSITION TO
SB 534, RELATING TO TRANSIENT ACCOMODATIONS TAX**

Thank you for the opportunity to testify in **opposition** to this important measure. The purpose of this bill is to change the transient accommodations tax allocation to each county, to require the counties to expend TAT monies exclusively to market and promote tourism and tourism-related activities and events, and to allocate a percentage of the TAT to the state parks special fund and the special land and development fund.

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 general however, the Council supports increased TAT funds and the removal of the current cap.

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. Although I know all four counties' are supportive of the removal of the current cap, it would be a major hindrance to restrict TAT revenues exclusively to market and promote tourism and tourism-related activities and events. The impacts of tourism are diverse and the **counties' need the flexibility** to respond as necessary. I am sure the counties' would be more open to the idea if additional funds were allocated to the counties and the State imposed the same restriction on its use of TAT funds.

2. The TAT cap was understood to be a temporary measure to assist the State with a budget shortfall because of a 9.8 per cent 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	
	<i>2007</i>	<i>2014</i>	<i>\$</i>	<i>%</i>
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%
<i>State of Hawaii</i>	<i>\$8.3M</i>	<i>\$188.2M</i>	<i>\$179.9M</i>	<i>2161.7%</i>

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

3. 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 per cent** or around \$27 million, yet Maui County has only received an increase in TAT revenue of \$508,623 or 2.2 per cent over the same period.

	Cost increases		<i>Change</i>	
	<i>2007</i>	<i>2014</i>	<i>\$</i>	<i>%</i>
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 per cent** 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.

4. 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 per cent, it is only fair and appropriate for more parity and balance in the TAT distribution.

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

COUNTY COUNCIL

Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Mason K. Chock
Gary L. Hooser
Arryl Kaneshiro
KipuKai Kualii
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
Lihu'e, Kaua'i, Hawai'i 96766

February 13, 2015

**TESTIMONY OF KIPUKAI KUALI'I
COUNCILMEMBER, KAUA'I COUNTY COUNCIL
ON**

**SB 534, RELATING TO TRANSIENT ACCOMMODATIONS TAX
Committee on Tourism and International Affairs
Committee on Water and Land
Committee on Public Safety, Intergovernmental and Military Affairs
Wednesday, February 18, 2015
2:15 p.m.
Conference Room 225**

Dear Chair Kahele, Chair Thielen, Chair Espero, and Committee Members:

Thank you for this opportunity to submit comments on SB 534, relating to the Transient Accommodations Tax (TAT). My testimony is submitted in my capacity as the Economic Development & Intergovernmental Relations Committee Chair and as an individual Councilmember of the Kaua'i County Council.

SB 534 removes the cap on the Counties share of the TAT revenues commencing Fiscal Year 2016-2017, and also restricts the use of the funds to be exclusively used for marketing/promoting tourism and tourism related activities/events only.

Kaua'i 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 Kaua'i, 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 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 we are prohibited from using TAT revenue for other services, 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.

AN EQUAL OPPORTUNITY EMPLOYER

Chair Kahele, Chair Thielen, Chair Espero, and Committee Members
Re: SB 534, Relating to Transient Accommodations Tax
February 13, 2015
Page 2

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. This resulted in millions of dollars of lost revenue to the Counties, and is evident in the tremendous increase in TAT collections each year.

To support the continuance of these vital public services, I respectfully ask the Senate Joint Committee to amend this measure by restoring the Counties allocation of the TAT to the level it was prior to the cap being in place. Additionally, I ask the Committee to remove the language restricting the Counties ability to use these funds.

For the reasons stated above, I strongly encourage the Senate Joint Committee to amend this measure. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

A handwritten signature in black ink, appearing to read "Kipukai Kualii".

KIPUKAI KUALII
Councilmember, Kaua'i County Council

AB:lc

COUNTY COUNCIL

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



OFFICE OF THE COUNTY CLERK

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

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Council Services Division
4396 Rice Street, Suite 209
Lihu'e, Kauai, Hawaii 96766

February 17, 2015

**TESTIMONY OF MEL RAPOZO
COUNCIL CHAIR, KAUAI COUNTY COUNCIL
ON**

**SB 534, RELATING TO TRANSIENT ACCOMMODATIONS TAX
Committee on Tourism and International Affairs
Committee on Water and Land
Committee on Public Safety, Intergovernmental and Military Affairs
Wednesday, February 18, 2015
2:15 p.m.
Conference Room 225**

Dear Chair Kahele, Chair Thielen, Chair Espero, and Committee Members:

Thank you for this opportunity to submit comments on SB 534, relating to the Transient Accommodations Tax (TAT). My testimony is submitted in my individual capacity as Council Chair of the Kauai County Council.

SB 534 in its current form will remove the cap on the Counties share of the TAT revenues commencing Fiscal Year 2016-2017. However, the use of the funds will be restricted and shall be exclusively used for marketing/promoting tourism and tourism related activities/events only.

Promoting tourism in our islands and supporting tourism related activities are of great importance for our economy, as the visitor industry is considered one of the largest industries on Kauai. However, it is important to note that other County government services such as public safety, parks maintenance, and public works are provided for visitors as well.

On Kauai, visitors comprise of approximately 21% of the total population each day. According to the Kauai 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 Hawaii (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.

Chair Kahele, Chair Thielen, Chair Espero, and Committee Members
Re: SB 534, Relating to Transient Accommodations Tax
February 17, 2015
Page 2

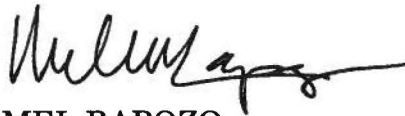
For Fiscal Year 2014-2015, the amount of TAT revenues allocated for Kaua'i is \$14,935,000, which is approximately thirteen percent (13%) of our General Fund budget. This allocation supports essential services provided by our County as well as grants for tourism related activities. Because the TAT funds are deposited into the County's General Fund, this Bill will require the Counties to develop a new system to account for these funds.

Restricting the use of TAT revenues received will hinder the Counties ability to fund much needed government services for our islands. The Counties will then need to consider increasing fees and/or Real Property Taxes significantly to cover expenses. This will be an additional challenge for the Counties who are already dealing with 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 the Senate Joint Committee to amend this measure by restoring the Counties allocation of the TAT to what it was prior to the establishment of the cap. Additionally, I ask the Committee to remove the language restricting the Counties ability to use these funds.

For the reasons stated above, I strongly encourage the Senate Joint Committee to amend this measure. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mel Rapozo', with a stylized flourish at the end.

MEL RAPOZO
Council Chair, Kaua'i County Council

AB:mn

From: mailinglist@capitol.hawaii.gov
To: [TSI Testimony](#)
Cc: okudara@hawaii.rr.com
Subject: *Submitted testimony for SB534 on Feb 18, 2015 14:15PM*
Date: Friday, February 13, 2015 10:16:50 AM

SB534

Submitted on: 2/13/2015

Testimony for TSI/WTL/PSM on Feb 18, 2015 14:15PM in Conference Room 225

Submitted By	Organization	Testifier Position	Present at Hearing
Jon Okudara	Hawaii Tourism Authority	Support	Yes

Comments:

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SUBJECT: TRANSIENT ACCOMMODATIONS, Increase rate; amend dispositions

BILL NUMBER: SB 534

INTRODUCED BY: Kahele, Chun Oakland, Green, Inouye and 5 Democrats

BRIEF SUMMARY: Amends HRS section 237D-2 to provide that the transient accommodation tax (TAT) rate shall be ____% beginning July 1, 2016.

Amends HRS section 237D-6.5 to provide that beginning with the fiscal year 2106-2017, \$103 million shall be distributed to the counties with Kauai county receiving ____%; Hawaii county receiving ____%; city and county of Honolulu receiving ____%; and Maui county receiving ____%. Beginning with the fiscal year beginning 2018-2019, requires each county to expend these distributions exclusively to market and promote tourism and tourism-related activities and events within the respective county; and requires each county to report to the legislature annually on such expenditures.

Amends HRS section 237D-6.5 to add a new paragraph (6) to provide that 1% of TAT, not to exceed \$4 million, shall be deposited as follows: (1) \$2 million into the state parks special fund; provided that any expenditure of funds deposited into the state parks special fund pursuant to this subparagraph shall be matched dollar-for-dollar with appropriations from the general fund and matched dollar-for-dollar by the county in which the park is located; (2) any amount in excess of \$2 million in the special land and development fund shall be expended for: (a) the protection, preservation, and enhancement of natural resources important to the visitor industry; (b) planning, construction, and repair of facilities; (c) operation and maintenance costs of public lands connected with enhancing the visitor experience; and (d) administrative costs, including salaries for permanent and temporary staff positions.

Of the amount deposited into the special land and development fund, \$400,000 shall be transferred to the beach restoration fund in fiscal 2016 to provide matching funds for the environmental impact statement associated with the planned beach nourishment project at Kapua on the island of Hawaii.

Requires the department of land and natural resources and the Hawaii tourism authority to seek additional or supplemental funding from the counties, the federal government and private entities to accomplish the purposes of this act.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: The TAT was initially adopted in 1986 by Act 340, SLH 1986, at the rate of 5% between January 1, 1987 to June 30, 1994. It was subsequently increased to 6% between July 1, 1994 and December 31, 1998; 7.25% between January 1, 1999 and June 30, 2009; 8.25% between July 1, 2009 and June 30, 2010; and is currently 9.25%. This measure proposes to increase the TAT and change the amounts distributed to the counties.

The proposed measure also proposes to add another distribution of TAT revenue. It proposes that 1% of TAT, not to exceed \$4 million, will deposit \$2 million into the state parks special fund and the remainder shall be deposited into the special land and development fund.

The proposed measure would add another siphon of TAT revenues, and would perpetuate the earmarking of TAT revenues for activities other than tourism. While proponents of earmarking of the TAT argue that if these projects or programs are not funded, none of the pristine beauty that visitors come to see will be preserved, one could make the argument on the other side. 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. Lawmakers seem to have lost sight of the fact that visitors also contribute to state coffers directly through the 4% 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.

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

Finally, the adoption of this measure may set a precedent that may lead to other requests for funding from the TAT for other "tourist-related" purposes.

Digested 2/13/15