

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON TOURISM & INTERNATIONAL AFFAIRS
ON
HOUSE BILL NO. 1946**

**February 11, 2020
9:30 a.m.
Room 312**

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

The Department of Budget and Finance (B&F) opposes House Bill (H.B.) No. 1946.

H.B. No. 1946 amends: 1) the amount of Transient Accommodations Tax (TAT) revenues allocated to the counties from a specified sum to an undetermined capped amount of reimbursements to each county for expenditures related to certain county public services; 2) requires the Director of Finance to certify the amounts for reimbursement, create the necessary forms to claim the reimbursement and adopt rules necessary to effectuate the purpose of this measure; and 3) requires each county to submit claims for reimbursement within 90 days after the expenditure of county funds or waive the right to claim for reimbursement.

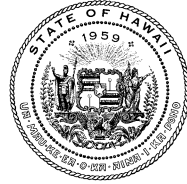
Each county may claim reimbursements for the following: 1) enforcing county ordinances relating to transient accommodations; 2) establishing, operating, and maintaining public mass transportation; 3) providing grants for county cesspool conversion programs affecting natural resources; 4) establishing, implementing, and

updating, in coordination with the Hawai'i Tourism Authority, county visitor industry strategic plans and priorities; and 5) providing ocean safety programs, including infrastructure and equipment, such as lifeguard towers, swim buoys, video cameras, staffing and operating costs, and education and visitor awareness.

B&F opposes this measure as we do not have the staff and operational resources to administer a reimbursement program. Furthermore, it may be more prudent to conduct a study of each county's expenditures on the aforementioned items to determine if current TAT allocations need to be adjusted accordingly.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR
JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION
DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Richard H.K. Onishi, Chair;
The Honorable Daniel Holt, Vice Chair;
and Members of the House Committee on Tourism & International Affairs

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 1946, Relating to the Transient Accommodations Tax

Date: Tuesday, February 11, 2020

Time: 9:30 A.M.

Place: Conference Room 312, State Capitol

The Department of Taxation (Department) offers the following comments on H.B. 1946. This measure amends the allocation of transient accommodations tax (TAT) revenue to the counties under section 237D-6.5(b)(4), Hawaii Revised Statutes. H.B. 1946 is effective upon its approval.

Under H.B. 1946, the allocation of TAT revenues to the counties is amended to a reimbursement system, whereby each county shall apply for reimbursement of certain costs within 90 days after the expenditure of county funds to the State Director of Finance. The Department is responsible for reporting the collection and distribution of TAT revenues. The Department will work with the Department of Budget and Finance in obtaining the TAT revenues approved to reimburse the counties on a monthly basis to be included in its Statement of Tax Operations report.

The allocation of TAT revenues is done on a fiscal year basis. To ensure a smooth transition to the new allocation method, the Department suggests the measure be made effective on July 1, 2020.

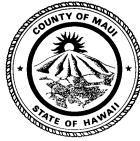
Thank you for the opportunity to provide comments on this measure.

Council Chair
Alice L. Lee

Vice-Chair
Keani N.W. Rawlins-Fernandez

Presiding Officer Pro Tempore
Tasha Kama

Councilmembers
Riki Hokama
Kelly Takaya King
Michael J. Molina
Tamara Paltin
Shane M. Sinenci
Yuki Lei K. Sugimura



Director of Council Services
Traci N. T. Fujita, Esq.

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

February 7, 2020

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism and International Affairs

FROM: Kelly Takaya King
Councilmember

SUBJECT: **HEARING OF FEBRUARY 11, 2020; TESTIMONY IN SUPPORT OF HB 1946, RELATING TO THE TRANSIENT ACCOMODATIONS TAX**

Thank you for the opportunity to testify in **support** of this important measure. The purpose of this measure is to amend the amount of Transient Accommodations Tax revenues allocated to the counties from a specified sum to capped reimbursements to the county for expenditures related to specified county public services.

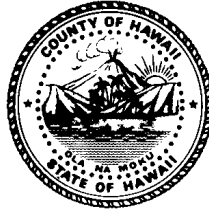
This measure is similar to the one in the Hawaii State Association of Counties Legislative Package and Maui County Council package. I offer this testimony in my capacity as an individual member of the Maui County Council.

I support this measure for the following reasons:

1. Maui County surpassed its carrying capacity in 2016. This measure ensures funding for much needed county public mass transportation projects, ocean safety programs, cesspool conversion programs, and visitor education.
2. Also we are in a housing crisis perpetuated by illegal short-term rentals. This measure includes one solution to the problem, distributing Transient Accommodation Tax revenues towards reimbursement for enforcement of county ordinances related to transient accommodations.

For the foregoing reasons, I **support** this measure

Harry Kim
Mayor



Roy Takemoto
Managing Director

Barbara J. Kossow
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 7, 2020

Representative Richard H.K. Onishi, Chair
Representative Daniel Holt, Vice Chair
Committee on Tourism and International Affairs

Dear Chair Onishi, Vice Chair Holt, and Committee Members:

RE: HB 1946 Relating to the Transient Accommodations Tax

HB 1946 would delete \$103M in TAT revenue that currently is earmarked for the four counties and replace it with an unspecified cap for each county. Whether any county would receive the full amount, or something less than the new cap, would depend on that county's ability to convince the Director of Finance that the county had made expenditures in five specified categories. The State and the counties ought to deal with each other as respectful partners, all of whom are striving to achieve what is in the best interests of the people they serve.

As to the specifics of HB 1946, I share with you the following:

- Some of the five reimbursable areas really don't have a direct nexus to the visitor industry that is paying this tax, namely cesspool conversion and public mass transit. You could argue mass transit would get rental cars off the road, but the reality is we have mass transit and it is primarily used by our local residents. Additionally, we have GET to help pay for this expense. Cesspool conversion falls under the Department of Health (State). Tasking us to take care of that problem while restricting the uses of the TAT is simply not fair.
- The counties continue to have financial burdens with the ever increasing ERS rates, which on July 1, 2020 will be 24% for General Employees and 41% for Police and Fire.
- Our TAT amount has remained relatively flat for the last 10 years. We have already had to find other ways to balance our budget – which includes significant amounts to promote tourism and pay for services enjoyed by our visitors.
- Cesspool conversion – we would need billions of dollars to convert all the cesspools on our island. We can use the entire TAT revenue from the State and it still would not be enough to convert the cesspools.
- It would be a terrible waste of time and manpower to bill for things that the money is already going towards.

We need to work together for the common good. We would like to see more TAT money flow to the counties. We do not support HB 1946.

Respectfully Submitted,


Harry Kim
MAYOR



DEPARTMENT OF FINANCE
THE COUNTY OF KAUA'I

DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR

REIKO MATSUYAMA
DIRECTOR

MICHELLE L. LIZAMA
DEPUTY DIRECTOR

Testimony of Reiko Matsuyama
Director of Finance, County of Kauai

Before the
House Committee on Tourism and International Affairs
February 11, 2020; 9:30 am
Conference Room 312

In consideration of
House Bill 1946
Relating to the Transient Accommodations Tax

Honorable Chair Onishi, Vice Chair Holt, and Members of the Committee:

The County of Kaua'i **strongly opposes** HB 1946 which proposes to amend the amount of transient accommodations tax revenues allocated to the counties from a specified sum to capped reimbursements for expenditures related to specified county public services.

HB 1946 provides a specific list of expenditures for which the counties may seek reimbursement of TAT revenue, up to as of yet an undetermined maximum. With the amount still uncertain, it is difficult to establish revenue estimates for budgeting purposes. Being that this is drafted as a reimbursement, the administrative costs to submit for the money will be a burden. Finally, it would seem unreasonable to place such a narrow focus on claim reimbursements as outlined in HB 1947. It would appear this bill is yet another attempt to further diminish the counties share of TAT revenue.

It is for these reasons, that we must **strongly oppose** HB 1946. Thank you for your consideration of this testimony.

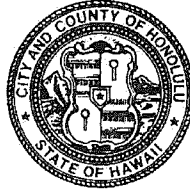
Sincerely,

Reiko Matsuyama
Finance Director



DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • WEB: www.honolulu.gov



KIRK CALDWELL
MAYOR

NELSON H. KOYANAGI, JR.
DIRECTOR

MANUEL T. VALBUENA
DEPUTY DIRECTOR

February 10, 2020

The Honorable Richard H.K. Onishi, Chair
The Honorable Daniel Holt, Vice Chair
and Members of the Committee on Tourism and International Affairs
Hawaii State House of Representatives
415 S. Beretania Street
Honolulu, HI 96813

Dear Chair Onishi and Committee Members:

The City and County of Honolulu (City) strongly opposes HB 1946, relating to the transient accommodations tax. HB 1946 would amend the amount of Transient Accommodations Tax (TAT) revenues allocated to the counties from a specified sum to capped reimbursements to the county for expenditures related to specified county public services.

The City has many concerns with this bill in its current form. Currently, the City receives 44.1 percent of the \$103,000,000 in TAT revenues allocated to the various counties. These are funds that the City depends on. The possibility that the amount of TAT funds that the City may receive could be capped at less than the \$45,423,000 we have budgeted for, is only the beginning of our concerns.

The City is very concerned about the requirement that the counties apply for reimbursement within ninety days after the expenditure of county funds in order to receive any monies from the TAT. Requiring the City to apply for reimbursement will result in significant administrative costs, which will not be reimbursed because they are not included in the five possible uses for the TAT funds. Also, reimbursement of funds may be delayed subject to the discretion of the director of finance requesting further information, or denied in its entirety, after the funds have already been spent. This requirement will put each of the counties in a very tough situation concerning their financial security.

HB 1946 lists only five possible uses for the TAT funds, failing to include large and growing parts of the City's budget. By failing to include these services, the bill allows for only a small fraction of the costs related to tourism to be covered by the TAT.

The Honorable Richard H.K. Onishi, Chair
The Honorable Daniel Holt, Vice Chair
and Members of the Committee on Tourism and International Affairs
Hawaii State House of Representatives
February 10, 2020
Page 2

Currently, the funds distributed to the City from the TAT are deposited into the City's general fund. The TAT, along with other general fund monies, are used to fund all aspects of city operations. These operations include police and fire services as well as other city functions such as the parks program, whose services benefit everyone on Oahu, including our visitors. While we understand that the TAT should be used for city operations related to transient accommodations and public services, the reality is that the tourism industry and public services affect many more aspects of City operation than the severely limited list in HB 1946 provides for.

As such, the City requests that the bill be held in committee, or, if this bill is to move forward, that significant amendments are made in order to eliminate the need to request reimbursements and the severe limitations on the use of funds.

Thank you for the opportunity to provide testimony on this measure. Should you have questions on this testimony, please contact me at 768-3901.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson H. Koyanagi, Jr.", with a stylized flourish extending to the right.

Nelson H. Koyanagi, Jr.
Director of Budget and Fiscal Services

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMODATIONS, Mode of Allocation to Counties

BILL NUMBER: HB 1946

INTRODUCED BY: ONISHI, CACHOLA, CREAGAN, HOLT, LUKE, MORIKAWA,
NAKASHIMA, PERRUSO

EXECUTIVE SUMMARY: Amends the amount of transient accommodations tax revenues allocated to the counties from a specified sum to capped reimbursements to the county for expenditures related to specified county public services.

SYNOPSIS: Amends section 237D-6.5(b)(4), HRS, to change the method of revenue sharing with the counties. Instead of receiving fixed dollar amounts as they do now, the counties would be allowed to submit claims for reimbursement of costs for public services, up to a (now unspecified) fixed dollar amount. To receive the reimbursement, a county shall apply for the reimbursement within ninety days after the expenditure of county funds; provided that failure to comply with this provision shall constitute a waiver of the right to claim a reimbursement. The director of finance shall prepare forms as may be necessary to claim the reimbursement. The director of finance may require a county to furnish information to ascertain the validity of the claim for reimbursement under this paragraph and may adopt necessary rules.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: Act 161, SLH 2013, changed the allocations of TAT to the counties from a percentage basis to a specific dollar amount. Currently, TAT revenues are allocated as follows: (1) \$1.5 million goes to the Turtle Bay conservation easement special fund; (2) \$16.5 million is deposited into the convention center enterprise special fund; (3) \$79 million goes to the tourism special fund; (4) \$103 million is transferred to the various counties; and (5) \$3 million is allocated to the special land and development fund. Any remaining revenues then go to the general fund.

This measure presumably would increase the siphon of TAT revenues to the counties, as the counties would be allowed to submit reimbursement claims based on vague criteria. It would perpetuate the earmarking of TAT revenues. Most of us understand that support of the counties is a worthy goal. But does that justify grabbing a nine-digit pot of TAT money without going through the normal budgeting process that also considers sweltering primary schools, underfunded state pensions, or homelessness?

Rather than the continual earmarking of TAT revenues, a direct appropriation of general funds would be preferable. Earmarking the TAT revenues for a particular purpose decreases transparency and accountability.

This proposal indicates that county governments have grown well beyond their means and are desperately 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 must stop somewhere. Both levels of government need to resize their operations and set priorities for what limited resources taxpayers can share with government.

Digested 2/6/2020



February 10, 2020

LATE

Representative Richard Onishi, Chair
Representative Daniel Holt, Vice Chair
House Committee on Tourism and International Affairs
Hawaii State Legislature

Comments on HB1946

Dear Representative Onishi, Representative Holt and Members of the House Committee on Tourism and International Affairs,

Thank you for the opportunity to provide comments on HB1946.

The Kohala Coast Resort Association (KCRA) appreciates that the House Committee on Tourism and International Affairs is looking at providing a more equitable distribution of the Transient Accommodations Taxes (TAT) to the counties, and we appreciate the intention of this bill to address some of those needs.

Since the cap on the amount of TAT went into place in 2012, we have seen a tremendous growth in visitation to our island. In fact, the number of direct air seats to Hawaii Island doubled in the period from 2013 to 2018, going from 614,714 in 2013 to 1,280,769 at the end of 2018, a difference of 666,055 or 108%. That number will grow again this year, with the addition of Southwest Airlines flights from the mainland and intra-island to Kona, and intra-island to Hilo.

We also have concerns about some of the items to be reimbursed in the proposed bill, and are not sure how the funding would be prioritized with other funding sources. For example, both the GET surcharge for Hawaii County, and a portion of the increase in fuel taxes were also supposed to be funding the mass transit program for the County of Hawaii. Would any TAT reimbursement under HB1946 only be applied after those other sources of funds are utilized?

Because the amount to be reimbursed in HB1946 is currently blank, we're also concerned that Hawaii County could, actually receive less TAT under this new arrangement, than they would under the current structure.

And if Hawaii County receives less in TAT, then they will look at increasing other revenues in order to balance the county's budget, including increasing property taxes. Unfortunately, the last time Hawaii County enacted a property tax increase, the residential and hotel / resort categories rose by 10.4%, while the homeowners' class did not see any increase. While we would hope that the Hawaii County Council would more fairly apply any proposed increases across all property tax classes in the future, that has not historically been the case.

We encourage greater discussion on this bill, and further conversations between state and county lawmakers on how to better address the growing needs of our island and state when it comes to the distribution of the TAT. Our visitor industry is the economic driver for the state, and we'd like to make sure that visitors aren't unfairly targeted to continue to meet our growing needs.

KCRA is a collection of master-planned resorts and hotels situated north of the airport which represents more than 3,500 hotel and timeshare accommodations and an equal number of resort residential units. This is approximately 35 percent of the accommodations available on the Island of Hawai'i. During its last economic impact report in 2016 (for the period of 2011-2015) we determined that KCRA member properties annually pay more than \$20 million in TAT, \$20 million in GET and \$11 million in property taxes. The next update to our impact report will be available in June 2020, with some preliminary data available in April. We will share this data, being compiled now by SMS Research, with members of your committee and the Big Island Caucus when the report is available.

We encourage further discussion on this measure and a more equitable distribution of the TAT.

Sincerely,

A handwritten signature in black ink that reads "Stephanie P. Donoho". The signature is fluid and cursive, with the first name being the most prominent.

Stephanie Donoho
Administrative Director



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON
TOURISM & INTERNATIONAL AFFAIRS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 312
TUESDAY, FEBRUARY 11, 2020 AT 9:30 A.M.**

To The Honorable Richard H.K. Onishi, Chair;
The Honorable Daniel Holt, Vice Chair; and
Members of the Committee on Tourism & International Affairs,

LATE

TESTIMONY IN OPPOSITION TO HB1946

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our opposition to HB1946.

We believe each county is entitled to their fair share of the TAT and feel they should be getting more than is currently allocated. It should be up to each county to use those funds received as they see fit for priorities instead of having a mandate with reimbursements and limiting the reimbursements to unspecified and unknown amounts.

Therefore, we oppose this bill and ask that it be deferred.

We appreciate the opportunity to testify on this matter.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.