

STAND. COM. REP. NO. **2069**

Honolulu, Hawaii

Feb. 15, 2006

RE: S.B. No. 2966
S.D. 1

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Tourism, to which was referred S.B.
No. 2966 entitled:

"A BILL FOR AN ACT RELATING TO TRANSIENT ACCOMMODATIONS TAX,"

begs leave to report as follows:

The purpose of this measure is to increase from \$31,000,000 to \$35,000,000 the cap on the 17.3 per cent in transient accommodations tax (TAT) collections that are deposited into the convention center enterprise special fund.

Your Committee received testimony in support of this measure from the Hawaii Tourism Authority (HTA), Department of Business, Economic Development, and Tourism, Hawaii Hotel & Lodging Association, and Outrigger Hotels and Resorts. Testimony in opposition was received from the HGEA. Comments were received from the Department of Taxation.

According to testimony of the HTA, the current \$31,000,000 limit on deposits into the convention center enterprise special fund is insufficient to maintain the facility at the level expected of a world-class facility. Major repairs such as replacement of the air conditioning system and similar projects can easily cost up to \$6,000,000. With the Hawaii Convention Center nearly ten years old, the major repairs will become more frequent. The alternative is to appropriate capital improvement funds for maintenance and repair, which is poor fiscal management. Ideally, the HTA should have a reserve fund for major maintenance.

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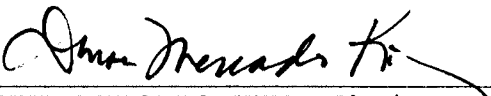
Your Committee requests the HTA to administratively create a maintenance reserve fund from unused or unencumbered revenues in the convention center enterprise special fund. Your Committee finds that section 237D-6.5(b), Hawaii Revised Statutes, can be read as allowing for "excess" revenues to be deposited into a reserve fund rather than the general fund, inasmuch as the reserve fund for major maintenance and repair would serve the same purpose as the convention center enterprise special fund.

Your Committee remains concerned with the loss of transient accommodations tax (TAT) revenues from the recent surge of hotels that convert to condominiums and time share plans. In the case of time share plans, TAT revenue is reduced because of a loss of per night room revenues. In the case of condominium conversions, the hotel is no longer a hotel and so the TAT is lost entirely. In the case of conversion of hotels to condominiums that still operate as hotels, creating in effect a hybrid operation, TAT revenue is also reduced because there are fewer hotel rooms and a "condo-hotel" may not be taxable as a "hotel."

Your Committee has amended this measure by adding a provision to apply the TAT to hotel conversions as a surcharge tax in an amount equal to fifty percent of the previous two years of TAT revenues from the hotel.

As affirmed by the record of votes of the members of your Committee on Tourism that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2966, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2966, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Tourism,



DONNA MERCADO KIM, Chair



