

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 2314, H.D. 1, S.D. 1

March 29, 2012

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

House Bill No. 2314, H.D. 1, S.D. 1, proposes to allocate the Transient Accommodations Tax revenues to the Convention Center Enterprise Special Fund on a fiscal year rather than on a calendar year basis which is the current method.

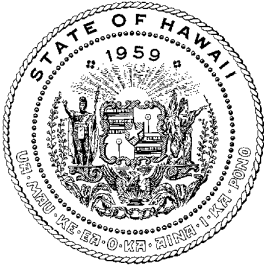
The department has no objection to this revision but does provide the following information on the context and impact this measure will have on the general fund. Presently, Section 237D-6.5, HRS, allocates 17.3 percent of the Transient Accommodations Tax to the Convention Center Enterprise Special Fund, up to a maximum of \$33,000,000; revenues collected in excess of the \$33,000,000 are deposited to the general fund. In past years, the \$33,000,000 maximum has been reached after about nine months, which results in the general fund receiving the 17.3 percent Transient Accommodations Tax allocation for the remaining three months of the calendar year.

Under this bill, the \$33,000,000 maximum allocation will shift from the calendar year to the fiscal year, effective July 1, 2012. Thus, the Convention Center Enterprise Special Fund will receive the 17.3 percent Transient Accommodations Tax allocation for the first six months of Calendar Year 2012, from January 1, 2012 to June 30, 2012. Then, with the \$33,000,000 resetting to the 2013 fiscal year,

beginning July 1, 2012, the Convention Center Enterprise Special Fund will continue to receive the 17.3 percent Transient Accommodations Tax allocation for the remaining six months of the calendar year from July 1, 2012 to December 31, 2012.

Although it appears the general fund will realize Transient Accommodations Tax losses in October, November and December of 2012, these amounts will be collected by the general fund in April, May and June of 2013. The impact of this measure is revenue neutral, but we do note that the timing of monthly collected revenue going to the Convention Center Enterprise Special Fund and the general fund will change within the fiscal year.

Section 3 of the bill does not appear to be necessary. The Convention Center Enterprise Special Fund has an appropriation ceiling of \$54,010,232. The Convention Center Authority has the flexibility, within the limits of the appropriation, to address the repair and maintenance needs of the Convention Center.



NEIL ABERCROMBIE
Governor

MIKE MCCARTNEY
President and
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Testimony of
Mike McCartney
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Hawai'i Tourism Authority
on
H.B. 2314, H.D. 1, S.D. 1
Relating to the Transient Accommodations Tax

Senate Committee on Ways and Means
Thursday, March 29, 2012
9:00 a.m.
Conference Room 211

The Hawai'i Tourism Authority (HTA) strongly supports the intent of H.B. 2314, H.D. 1, S.D. 1, which provides for the allocation of transient accommodations tax (TAT) revenues into the Convention Center Enterprise Special Fund (CCESF) on a fiscal year basis, and authorizes the HTA to utilize any unencumbered reserve remaining in the Special Fund at the close of the 2011-2012 fiscal year for repair and maintenance projects of the Hawaii Convention Center.

Since the establishment of limits on the deposits into the CCESF, the Fund has occasionally been under funded during a fiscal year.

The TAT law provides for 17.3 percent of the TAT revenues to be deposited into the CCESF, not to exceed \$33 million in any calendar year. The Department of Budget and Finance deposits 17.3 percent of the TAT collected into the CCESF and halts deposits when \$33 million is reached in the calendar year. This has resulted in a shortfall of funds during certain fiscal years. For example,

Calendar Year 2008		Fiscal Year 2008-2009	
January	3,249,660	July	3,262,062
February	4,117,689	August	3,044,114
March	3,350,415	September	4,011,601
April	3,490,525	October	2,479,072
May	2,883,544	November	0
June	3,111,319	December	0
July	3,262,062	January	2,398,055
August	3,044,114	February	2,972,193
September	4,011,601	March	3,642,051
October	2,479,072	April	3,209,900
November	0	May	2,582,108
December	0	June	2,900,206
Calendar Year	33,000,000	Fiscal Year	30,663,126

Funding for FY 2008-2009 was \$30,663,126 because deposits for the calendar year 2008 reached the \$33 million limit in October.

Further, moving to a fiscal year basis will align the timing of funding with Hawai'i Convention Center's (HCC) operations budget.

Aligning the timing of funding with a fiscal year will allow for a true picture of the CCESF's unencumbered reserve balance. Currently, any "unencumbered reserve" balance at June 30 does not represent a true reserve. Rather, the unencumbered reserve balance at June 30 generally represents funds that were collected early in the year, but that must be saved for the funding of operations later in the year when funding ceases (October, November and December). By December, the unencumbered reserve balance diminishes significantly for this reason. If the unencumbered reserve balance at June 30 was treated similar to a true reserve and the funds were spent early in the fiscal year, a great likelihood would exist that the HCC would not have the ability to operate in the last quarter of the calendar year. Under the current arrangement of funding, the CCESF reserve is not an accurate picture of the reserve.

Each year, based on its June 30 balance, it appears as if the CCESF maintains a large reserve that could mislead policy makers and users of the financial statements into the belief that the CCESF maintains a significant amount of funds in excess of expenditures. To avoid such a misperception, we recommend the mechanism to provide for a true financial picture at fiscal year-end.

H.B. 2314 will correct the above-noted issues. If H.B. 2314 is approved, funding for the CCESF will be consistent with that of the Tourism Special Fund.

H.B. 2314, also will allow the unexpended and unencumbered funds in excess of any unencumbered reserve remaining in the CCESF at the end of the 2011-2012 fiscal year to be expended for repair and maintenance projects of the HCC, such as the rooftop terrace maintenance project and building painting.

Thank you for the opportunity to offer these comments.