

NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1530  
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FREDERICK D. PABLO  
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR  
DEPUTY DIRECTOR

## HOUSE COMMITTEE ON FINANCE

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 795 PROPOSED HD 1 RELATING TO TAXATION

**TESTIFIER:** FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR  
DESIGNEE)

**COMMITTEE:** FIN

**DATE:** MARCH 2, 2011

**TIME:** 12:00PM

**POSITION:** DEFER TO DEPARTMENT OF BUDGET AND FINANCE

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This bill proposes to place a limit on the amount of transient accommodations tax revenues distributed to the counties.

The Department of Taxation (Department) defers to the Department of Budget and Finance on the merits of this bill.

**REVENUE IMPACT** – Estimated revenue gain of:

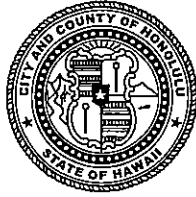
- \$10.0 million for FY 2012;
- \$16.5 million for FY 2013;
- \$23.3 million for FY 2014;
- \$30.7 million for FY 2014;

The revenue gain to the general fund reduces the distribution to the counties.

OFFICE OF THE MAYOR  
CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE  
MAYOR



March 2, 2011

The Honorable Marcus Oshiro  
House Committee on Finance  
Twenty-Sixth Legislature  
Regular Session of 2011  
State of Hawaii

**RE: Testimony of Douglas S. Chin, Managing Director on  
H.B. 795, PROPOSED H.D. 1; RELATING TO TAXATION.**

Chair Oshiro and members of the House Finance Committee, the City and County of Honolulu ("City") submits the following testimony in opposition to the proposed H.D.1 to H.B. 795, which proposes a four year cap on the counties' portion of the Transient Accommodations Tax (TAT) at the lesser of \$101,978,000 dollars or the current funding level of 44.8 percent of the TAT revenues. Since the TAT is an integral and essential part of the counties' base budgets, this cap will have a negative effect on county budgets. Given that the approximately \$102 million cap sets the maximum TAT revenue to the City at \$45 million per year and the City's current FY 2012 budget includes \$44 million in TAT revenues, this cap does not allow for TAT revenue growth should the visitor industry improve. Thus if more tourists visit Oahu and more city services and infrastructure are impacted, the increase in TAT revenues will go to the state and not the City.

The TAT was created as a more equitable method of sharing state revenues with the counties in recognition of the greater impact of the visitor industry on county services such as police, fire protection, parks, beaches, water, roads, sewage systems and other tourism-related infrastructure. The legislature also noted that the distribution of the TAT to the counties was meant to provide a stable and continuing source of revenue for the counties. Any cap on the TAT disregards the wide array of county services provided to tourists and the visitor industry.

For example, the Honolulu Fire Department (HFD) is responsible for ensuring our visitor accommodations and visitor entertainment centers are properly fire protected. And, it also is an integral part of our City's first responder team that responds to rescues and medical emergencies, as well as fire alarms. In 2010, HFD estimates some of the following costs to serve tourists and the tourism industry:

Annual inspection of hotels and businesses	\$150,000
Annual inspection of fire protection systems	\$15,000

Review of fire protection plans for new construction in Waikiki	\$8,000
Night inspection of hotel nightclubs	\$11,000
Evacuation, extinguisher and other training of hotel staff	\$3,000
Response to approximately 4,293 alarms in Waikiki	\$1,502,250
Response to 65 alarms at Diamond Head trail	
Tourist-related incidents in areas outside of Waikiki	\$80,000
Training costs	\$150,000

In addition to HFD services, the City expends approximately \$11 million a year to provide police services in police District 6 which covers Waikiki; this figure does not include indirect costs of the city in prosecuting and managing cases from Waikiki, nor salaries and benefits paid to police officers to patrol and prevent crimes, police vehicles, traffic enforcement, administrative and support services and facilities maintenance.

City public service agencies are also on-call to serve visiting dignitaries. However, these visitors such as President Obama, require tremendous amounts of additional resources. For example, a recent 2010 visit by President Obama required \$228,000 in unbudgeted, non-reimbursable HPD overtime costs. And the City has budgeted \$14 million in the FY 2011 budget for 2011 Asia-Pacific Economic Cooperation (APEC) conference set for this fall; the FY 2012 budget figures for APEC are expected to be higher.

City lifeguards also provide services for every tourist who ventures onto Oahu's beaches. Without lifeguard services, tourists unfamiliar with local ocean conditions would be at risk at Oahu beaches. If just \$1 million were taken from the Ocean Safety Division's budget, the resultant loss would mean the potential loss of more than 30 positions and the loss of lifeguard services.

Besides the safety services provided by police, fire, lifeguards and ambulance, the City also provides major recreational opportunities for visitors and the tourist industry. Two major parks, Ala Moana and Kapiolani, bookend Waikiki and provide the largest green space and recreational area in Waikiki. Between 6,000 to 10,000 people per day visit these parks and the Department of Parks and Recreation (DPR) estimates that at least 75% of these park users are visitors. Given the high usage and the long hours these parks are open, DPR have multi-shift, seven day a week operations. Restrooms in these parks are cleaned as many as six times a day compared with the once a day cleanings for most other parks. Other favorite tourist destinations in city parks include Sunset Beach, Banzai Pipeline, Rock Piles, Waimea Bay, Laniakea, Chun's Reef, Puena Point, Haleiwa and Velzyland. The estimated cost of recreational and maintenance operations in Kapiolani Park and Kuhio Beach area is approximately \$3 million annual and the cost of maintain beach parks along the Windward and North Shore areas is approximately \$3.7 million annually.

The City also provides other recreational and entertainment venues for visitors such as the Honolulu Zoo, the Waikiki Shell, the Neal Blaisdell Center, six municipal golf courses and the Royal Hawaiian Band performances. Entrance and users fees to these venues do not cover the cost of operations; city funds subsidize the cost of running and maintaining these venues.

Tourists and the tourism industry also impact the City's infrastructure. They rent cars and tour the island on buses that use city roadways. While it is impossible to specifically determine

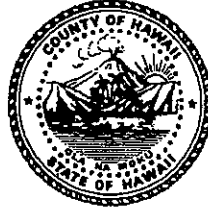
the tourist-related cost of maintaining county roads, the city is constantly spending money for basic and emergency road repairs. Currently, the City has begun a \$6.6 million project to repave Waikiki roads and upgrade Waikiki sidewalks.

In addition, the storm water system is financed by the City, which has given priority to protecting recreational waters in areas such as Waikiki and Hanauma Bay. These programs protect near shore water quality and the debt service to pay for these improvements will come from the City's general fund.

Given the number and variety of services the City provides to tourists and the tourist industry, any efforts to cap the counties' share of the TAT will be deleterious to the City's efforts to maintain a visitor-friendly environment. We sincerely hope that you will hold this bill in committee.

Thank you for this opportunity to testify.

William P. Kenoi  
Mayor



William T. Takaba  
Managing Director

Walter K.M. Lau  
Deputy Managing Director

## County of Hawai'i Office of the Mayor

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March 2, 2011

The Honorable Chair Marcus R. Oshiro  
And Members of the House Committee on Finance  
Hawai'i State Capitol, Room 308  
415 South Beretania Street  
Honolulu, Hawai'i 96813

Aloha, Chair Oshiro and Committee Members:

Thank you for this opportunity to express my reservations about the proposed new draft of House Bill 795, which would temporarily cap the four counties' share of the transient accommodation tax (TAT) at the lesser of \$101.97 million or 44.8 percent of actual TAT collections each year until June 30, 2015. Our fiscal position has further deteriorated since the Legislature considered a similar proposal last year, and we are unable to support this proposal.

Yesterday I delivered to the Hawaii County Council a proposed budget that is \$366.1 million, or \$37 million less than the budget in effect when I took office in 2008. My administration is now in the third year of a painful program to reduce the size and cost of government to offset a decline in property tax collections, which are the county's largest source of revenue. We have reduced services, restricted hiring, cut overtime, imposed furloughs along with the rest of the state and imposed an array of other budget cuts to reduce spending and avoid a property tax increase.

This new draft of HB 795 would cap county collections from our second largest source of revenue, which is the transient accommodations tax. As the economy improves, the TAT is expected to be the first source of county revenue that will begin to grow, which would finally provide the counties some measure of relief from years of budget cuts. This bill will actually block that growth in TAT revenues, and will prolong the counties' fiscal problems, forcing additional budget cuts.

Both the State and Counties face unprecedented budget shortfalls, and we cannot solve these very serious problems by working at cross-purposes with one another. The county mayors together represent every one of your constituents. It is essential that we work cooperatively in this challenging economic climate because our constituents and your constituents are exactly the same people.

Honorable Marcus R. Oshiro

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March 2, 2011

We are also concerned that capping the amount of TAT funding distributed to the counties will leave the counties without the necessary resources to support the visitor industry in the years ahead. From the time of the establishment of the TAT in 1986, the Legislature planned to make the Counties beneficiaries of the hotel room tax because lawmakers recognized the importance of county facilities and services to support and enhance the visitor experience. It was always understood that much of the burden of mass tourism is carried by the counties. This bill would cap the counties share of the TAT, while the impacts of tourism on county infrastructure are expected to increase.

We now have more than one million tourists a year visiting the County of Hawai'i. As the visitor count grows, the visitors' demands on county resources will grow. When a visitor calls for law enforcement help, a county police officer responds. When the visitor gets into trouble in the ocean, county lifeguards or firefighters respond. When the visitor uses sewer and water service, those are county services. The visitors drive on county roads, and use county parks.

This proposed draft would freeze payments to the county while the demands on county services from the visitor industry will surely continue to grow. Hotel room tax revenues help provide funding for critical programs such as police and fire protection.

We respectfully urge the committee to reject this bill. Mahalo for your consideration.

Aloha,

A handwritten signature in black ink, appearing to read 'William P. Kenoi', with a long horizontal line extending to the right.

William P. Kenoi  
MAYOR

**Bernard P. Carvalho, Jr.**  
Mayor



**Gary K. Heu**  
Managing Director

**OFFICE OF THE MAYOR**

**County of Kaua'i, State of Hawai'i**

4444 Rice Street, Suite 235, Lihu'e, Hawai'i 96766  
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Testimony of the  
**County of Kaua'i**

Bernard P. Carvalho, Jr., Mayor  
4444 Rice Street, Suite 235  
Lihu'e, Hawai'i 96766

Tel: (808) 241-4900; Fax (808) 241-6877

Before a Hearing of the  
**House Finance Committee**  
Wednesday, March 2, 2011  
12:00 p.m.  
State Capitol  
Conference Room 308

**House Bill 795 proposed HD1, Relating To Taxation**

Thank you for allowing this opportunity to convey my reservations on the implications of HB No. 795 proposed HD 1 which preserves the distribution of transient accommodation tax (TAT) revenues to the counties but places a fixed dollar cap on the total amount of TAT funds that would be distributed to the counties.

While HB No. 795 proposed HD 1 limits the amount of TAT revenues distributed to the counties, we appreciate the fact that the bill does not fully deprive the counties of this critical revenue source.

The transient accommodations tax (TAT) was established in 1986 under Act 304, Session Laws of Hawai'i and imposed a five per cent (5%) tax on the gross revenues derived from the furnishing of transient accommodations.

In 1990, the Legislature recognized that "...many of the burdens imposed by tourism fall on the counties" and noted that increased pressures of the visitor

industry meant greater demands on county services, such as "...providing, maintaining, and upgrading police and fire protection, parks, beaches, water, roads, sewage systems, and other tourism related infrastructure." (House Journal 1990; Conference Committee Report No. 207)

For this reason, Act 185, Session Laws of Hawaii 1990, provided that 95% of the TAT revenues be distributed to the counties as follows: 44.1 per cent to the City and County of Honolulu, 22.8 per cent to the County of Maui, 18.6 per cent to the County of Hawaii, and 14.5 per cent to the County of Kauai and the remaining 5% was to be retained by the State to cover the administrative costs of assessment, collection, and disposition of the revenues.

Although the TAT rate and distribution formula have been revised at various times over the past twenty years, the basic underlying intent of the law has always remained constant -- to support and improve the quality of Hawai'i's tourism product and infrastructure.

Since taking office, my Administration has taken a very conservative approach to the County's financial management and will continue to do so until this economic storm passes. In this current fiscal year, we made a conscious effort to reduce our budget and closely manage our expenses to avoid reducing services. The challenge was especially difficult since we concurrently experienced a 10.2% reduction in real property tax revenues. Recently, with the support of the County Council, we have even been able to eliminate 2-day furloughs for our employees. All of this would not have been possible had we not been able to retain our share of the TAT.

We all serve a common constituency -- residents of Kaua'i are also residents of the State of Hawai'i. Any action by the Legislature to cap or reduce TAT funding and/or transfer State services to the Counties will not solve the problem. It will merely shift the burden of responsibility from one governmental entity to another while the impacts and negative consequences on our visitors and residents ultimately remain unresolved.

We ask that you acknowledge the role county governments have in supporting tourists and our visitor industry. County governments maintain the public safety services, water and sewer infrastructure, roads, transportation, parks, and public facilities that support and benefit the visitor industry. Capping the TAT funding would have a direct impact on the very industry that generates the hotel room tax revenues.

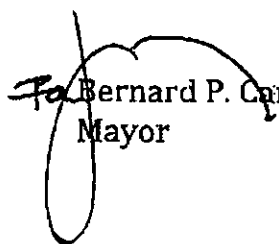
We are now at a cross-road in time. Because of the difficult economic conditions, the Legislature is considering capping the Counties share of the TAT and



is looking at the possibility of using these funds to balance the State's existing budgetary shortfall.

We fully recognize and empathize with the State's budgetary challenges. We also face and must continue to deal with many of our own revenue shortfalls at the county level. For this reason, I humbly ask that you consider working closely with the counties and keep open lines of communication that fosters productive dialogue and decision making prior to adopting any measure intended to limit the counties fair share to the TAT.

Sincerely,

  
Bernard P. Carvalho, Jr.  
Mayor

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** TRANSIENT ACCOMMODATIONS, Distribution to counties

**BILL NUMBER:** HB 795 Proposed HD-1

**INTRODUCED BY:** House Committee on Finance

**BRIEF SUMMARY:** Amends HRS section 237D-6.5 to provide that until June 20, 2015 the counties share of the transient accommodations tax (TAT) revenues shall be 44.8% or \$101,978,000, whichever is less; provided that if based on the actual transient accommodations tax revenues derived during the fiscal year, the counties' share for the entire fiscal year is less than \$101,978,000, the state director of finance shall pay the counties an appropriately adjusted amount.

This act shall be repealed on June 30, 2015; provided that HRS section 237D-6.5, shall be reenacted in the form in which it existed on the day prior to the effective date of Act 61, SLH 2009.

**EFFECTIVE DATE:** July 1, 2011

**STAFF COMMENTS:** The proposed measure would temporarily limit the counties' share of the TAT revenues to the amount they received in fiscal 2010. It should be remembered that in a down economy, taxpayers are examining their spending priorities and paring back their spending - a concept that state and local governments have to adopt to regain control of their finances. At a time when taxpayers are doing more with less, government should do the same.

What this proposal underscores is the fact that both state and county governments have grown well beyond their means. 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 counties must be held accountable for their fiscal antics which have led homeowner real property taxpayers into believing they can have more county services with little or no increase in their tax burden.

Both levels of government need to resize their operations and set priorities for what limited resources taxpayers can share with government.

Digested 3/1/11

The Twenty-Sixth Legislature  
Regular Session of 2011

HOUSE OF REPRESENTATIVES  
Committee on Finance  
Rep. Marcus R. Oshiro, Chair  
Rep. Marilyn B. Lee, Vice Chair

State Capitol, Conference Room 308  
Wednesday, March 2, 2011; 12:00 p.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 795, PROPOSED HD1  
RELATING TO TAXATION**

The ILWU Local 142 opposes H.B. 795, proposed HD1, which places a limit on the amount of transient accommodations tax (TAT) revenues distributed to the counties.

We fully recognize the huge budget deficit confronting the State. However, H.B. 795, proposed HD1 will only shift the burden to the counties if TAT distribution is capped. While the bill does not specifically call for a reduction in TAT revenue, what will occur is that the counties will not be able to benefit from a rebounding visitor industry.

If the counties are not able to count on any increases in TAT revenues and are faced with their own budget deficits, they will likely need to cut services, reduce staffing and salaries, and increase property taxes. The result will be even more hardship for each resident.

The ILWU urges that H.B. 795, proposed HD1 be HELD. Thank you for the opportunity to share our views and concerns.

## **FINTestimony**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 28, 2011 7:24 PM  
**To:** FINTestimony  
**Cc:** web@cartoonistforchrist.org  
**Subject:** Testimony for HB795 on 3/2/2011 12:00:00 PM

Testimony for FIN 3/2/2011 12:00:00 PM HB795

Conference room: 308  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: Lee McIntosh  
Organization: Individual  
Address:  
Phone:  
E-mail: [web@cartoonistforchrist.org](mailto:web@cartoonistforchrist.org)  
Submitted on: 2/28/2011

### Comments:

Mr. Chair and Members of the Committee on Finance:

Aloha, my name is Lee McIntosh. I live in Kau on the Big Island. I am not in favor of the proposed draft of HB 795, which places a cap on the TAT distributed to the counties. The County is limited to the TAT and property taxes for revenue. Unlike property taxes, the TAT has the potential to grow and supplement revenue collected from property taxes, discouraging the County from raising property taxes. Please do not make these difficult times more difficult by passing this proposed draft. Thank you for the opportunity to testify.