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Testimony of  
**Mike McCartney**  
President and Chief Executive Officer  
Hawai'i Tourism Authority  
on  
**S.B. 2114, S.D. 1**  
**Relating to Transient Accommodations Tax**

House Committee on Tourism  
Monday, March 12, 2012  
9:30 a.m.  
Conference Room 312

The Hawai'i Tourism Authority (HTA) strongly supports S.B. 2114, S.D. 1, which provides for the allocation of transient accommodations tax (TAT) revenues into the Convention Center Enterprise Special Fund on a fiscal year basis, and allows the funds in excess of any unencumbered reserves to be used for repair and maintenance projects of the Convention Center.

Since the establishment of limits on the deposits into the Convention Center Enterprise Special Fund (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

This resulted in a funding for FY 2008-2009 being \$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 HCC's 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 was 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 Convention Center 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.

S.B. 2114 will correct the above-noted issues, and allow the Hawai'i Convention Center to maintain a sufficient reserve for anticipated repair and maintenance projects.

Thank you for the opportunity to offer these comments.

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON TOURISM  
ON  
SENATE BILL NO. 2114, S.D. 1

March 12, 2012

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Senate Bill No. 2114, 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.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**SUBJECT:** TRANSIENT ACCOMMODATIONS, Distribution to convention center enterprise special fund

**BILL NUMBER:** SB 2114, SD-1

**INTRODUCED BY:** Senate Committee on Ways and Means

**BRIEF SUMMARY:** Amends HRS section 237D-6.5 to provide that distributions of the transient accommodations tax (TAT) to the convention center enterprise special fund shall be made on a fiscal year basis rather than on a calendar year basis.

The amendments made to HRS section 237D-6.5(b) by this measure shall not be repealed on June 30, 2015 when that section is repealed and reenacted by Act 61, SLH 2009, and Act 103, SLH 2011.

Provides that any unexpended and unencumbered moneys determined by the Hawaii tourism authority to be in excess of any unencumbered reserve remaining in the convention center enterprise special fund at the close of fiscal year 2012 may be expended by the authority for repair and maintenance projects of the Hawaii convention center.

**EFFECTIVE DATE:** July 1, 2012

**STAFF COMMENTS:** Currently TAT revenues are distributed to the convention center enterprise special fund on a calendar year basis while expenditures from the fund are made on a fiscal year basis. Since the special fund has a limit of \$33 million, once the special fund reaches \$33 million no additional funds can be deposited into the fund until the next calendar year, which currently results in a shortfall. This measure would provide that the distribution of TAT revenues shall be on a fiscal year basis in alignment with the payment of expenditures and the rest of the state's financial year.

The amendment made in SD-1 allows any excess funds in the enterprise special fund at the end of fiscal year 2012 to be used for repairs and maintenance of the convention center. Hopefully, this is not an indicator that the management of the center does not have a schedule of maintenance reserves to insure that deferred maintenance projects will have the necessary funding when the time occurs.

Digested 3/9/12