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Testimony of
Mike McCartney
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on
S.B. 2114
Relating to Transient Accommodations Tax

Senate Committee on Ways and Means
Thursday, February 23, 2012
9:00 a.m.
Conference Room 224

The Hawai'i Tourism Authority (HTA) strongly supports S.B. 2114, which provides for the allocation of transient accommodations tax (TAT) revenues into the Convention Center Enterprise Special Fund on a fiscal year basis.

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. 2144 will correct the above-noted issues. If S.B. 2144 is approved, funding for the CCESF will be consistent with that of the Tourism Special Fund.

Thank you for the opportunity to offer these comments.