TESTIMONY BY KALBERT K. YOUNG
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STATE OF HAWAII
TO THE SENATE COMMITTEE ON TOURISM AND HAWAIIAN AFFAIRS
ON
SENATE BILL NO. 1202

February 4, 2013

RELATING TO TRANSIENT ACCOMMODATIONS TAX

Thank you for this opportunity to provide in writing my comments and testimony - which were presented verbally - at the February 4, 2013: 3 p.m., Committee on Tourism and Hawaiian Affairs deliberation of Senate Bill No. 1202, "Relating to Transient Accommodations Tax." Senate Bill No. 1202, proposes to remove the sunset date on the temporary 2% increase of the transient accommodations tax (TAT) which is set to expire on July 1, 2015. The bill also removes the sunset date on revenue caps to the beneficiaries of the TAT (i.e. the Hawaii Tourism Authority, the Convention Center Special Fund, and the counties) which is also set to expire on July 1, 2015. The bill also proposes to increase the TAT by an additional 2%, so whereas the current TAT is (temporarily) 9.25%, the bill proposes the new (permanent) TAT rate to be 11.25%. My comments during the Committee hearing were largely focused on clarifying the significance of the Administration's position on this latter point.

First, the Governor's proposed budget for the upcoming fiscal biennium (FYB13-15) is balanced and does not require the components of this bill to balance. This is primarily due to the fact that the sunset of the caps and the current temporary 2% additional TAT is not scheduled to occur until July 1, 2015 (FY16)– which is after the conclusion of the next fiscal biennium. However, the State and its financial plan is anticipating that the fiscal and revenue condition of the State beginning in FY16 will be under distress. The last Council on Revenues forecast predicts State tax revenue growth to be only about 1.2% in FY16. A number of temporary revenue enhancement measures passed during previous Legislatures are expiring. There are also a number of unknown, but likely, expenditure increases that could occur before FY16. For example, if there are any collective bargaining increases above the current situation that additional expense is not provided for in the proposed budget. Also, the State has yet to adequately meet its annual required contribution to fund long-term (unfunded) liabilities. And, there are a number of departmental programs desired by the Legislature and/or the Executive that will require additional funding support in future bienniums.

The Department of Budget and Finance and the Administration supports this measure as a means to have a discussion on the future revenue requirements for the State and the role, if any, TAT could play in meeting some of these expenditures or obligations. The State will have to look at addressing its projected revenue stream, its projected expenditure growth, and the comparability of its TAT relative to other travel destinations. This bill represents a larger discussion that has to be undertaken.

Lastly, 2% of the TAT is estimated to generate about $95 to $100 million per year to the State's general fund based on the current formulaic TAT statute. In combination with the temporary caps, the total TAT revenue to the State is approximately $150 million per year (based on FY12 revenues). Without the caps or the current temporary 2% addition in the TAT, the State's general fund revenue from TAT would be approximately $15 million per year. The State's financial plan contemplates the continuation of TAT revenue at its current level in order to adequately provide funds to the State into future bienniums.

I also wanted to re-cap my statements in response to lines of questions from Committee members related to TAT revenue to the counties or State provided to improve or maintain public facilities used by visitors. Having been a former county finance director and the current State finance director, I am familiar with how TAT revenue is budgeted, accounted for, and expended at both levels of government. Neither the city, the counties, nor the State of Hawaii can say for certain that any specific funds from TAT are used to rehabilitate, maintain, improve, or reform public facilities. TAT is accrued to the general fund of each governmental body. General funds are ultimately appropriated to rehabilitate, maintain, improve or reform public properties – not, TAT.

Having been a finance director at the county and now the State level, I did say that hypothetical scenarios whereby the counties and the State can be more invested in the visitor industry and have a more close tie to revenue from local economic-driven activity is intriguing. Certain committee members inferred that the counties could benefit more closely from economic activity generated in their jurisdictions if they were given taxing authority – whether TAT or GET, for example. This concept could be intriguing from an economic perspective and is not dis-similar from visitor-industry taxation structures employed in other jurisdictions and locales.