

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 3081, S.D. 1, H.D. 1

March 28, 2014

RELATING TO ECONOMIC DEVELOPMENT

Senate Bill No. 3081, S.D. 1, H.D. 1, establishes an innovative business interaction program for investors and innovative talent under the Hawaii Tourism Authority and increases the Transient Accommodations Tax revenues deposited into the Tourism Special Fund by an unspecified amount to be used to fund the purpose of the program.

The Department of Budget and Finance would like to point out that this measure would allocate an undetermined amount of the Transient Accommodations Tax (TAT) to the Tourism Special Fund. The general fund revenue decline that would result from this legislation is currently not accounted for in the State's six-year general fund financial plan. In light of the recent Council on Revenues' (COR) forecast that projects flat revenue growth in the current fiscal year and significantly reduces the rate of growth of tax revenues to the general fund over the next 5 fiscal years, the Department would advise against Senate Bill No. 3081, S.D. 1, H.D. 1.

The State should support investment into promotion and improvement of our current number one industry - the visitor industry. However, as the COR has already identified increased revenues from the visitor industry has peaked and, therefore, coupled with the COR forecast of declining overall tax revenues, increased funding from TAT in the near-term is anticipated to compromise the funding availability for other public services and programs.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
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Statement of
Richard C. Lim
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Friday, March 28, 2014
2:00 PM
State Capitol, Conference Room 308

in consideration of
SB 3081, SD 1, HD 1
RELATING TO ECONOMIC DEVELOPMENT.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the House Committee on Finance.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 3081, SD 1, HD 1, legislation establishing an innovative business interaction program.

Hawaii's established industries are maturing. There is a strategic need to develop new growth sectors for the State's economy. DBEDT's mission is to nurture a Hawaii economy that embraces innovation and is globally competitive, thus providing high-wage job opportunities for all of Hawaii's citizens.

A key component to this mission is establishing relationships between investors and innovative talent, and to build connections to global markets.

However, in order for the proposed program to take root and have an economic impact in Hawaii, Hawaii businesses and Hawaii-based investors must be important contributors and participants in any events organized through the program. Current examples of this include DBEDT's Creative Lab Initiative at Hawaii International Film Festival (HIFF) and Hawaii Fashion Events which integrate creative, design, tech and investment sectors.

Continued support of the State's core efforts to develop an innovation ecosystem – the Broadband, HI Growth, and Clean Energy Initiatives – is needed to create a critical mass of Hawaii businesses and to attract investors to Hawaii. The department supports the intent of this measure, provided the department is engaged with HTA and the appropriation does not replace or negatively impact the Administration's budget request. Thank you for the opportunity to offer these comments.



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

Written Statement of

KARL FOOKS
President

Hawaii Strategic Development Corporation

Before the
COMMITTEE ON FINANCE

March 28, 2014
2:00 PM
State Capitol, Conference Room 308

In consideration of
SB 3081 SD 1 HD 1 RELATING TO ECONOMIC DEVELOPMENT

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee on Finance:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of SB 3081 SD 1 HD 1, legislation that establishes an innovative business interaction program for investors and innovative talent. Comments are also provided.

This legislation aligns with the HI Growth Initiative's efforts to develop local entrepreneurial talent in high growth sectors and connect and network them with investment capital to grow and scale a profitable business in Hawaii.

However, in order for the proposed program to take root and have an economic impact in Hawaii, Hawaii businesses and Hawaii-based investors must be important contributors and participants of any events organized through the program. Continued support of the innovation ecosystem, through efforts like the HI Growth Initiative, is needed to create a critical mass of Hawaii businesses and to attract investors to Hawaii.

Thank you for the opportunity to provide testimony.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Friday, March 28, 2014 at 2:00 P.M.
Conference Room 308, State Capitol**

RE: SENATE BILL 3081 SD1 HD1 RELATING TO ECONOMIC DEVELOPMENT

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committees:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** SB 3081 SD1 HD1, which establishes a business interaction program in the HTA to develop synergy between an event organizer and innovative businesses to improve the economic opportunities in Hawaii.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The concept proposed in SB 3081 SD1 HD1 is similar to the program which established South by Southwest, which grew from a film festival into a collection of events that include an interactive conference for innovative businesses, entrepreneurs, and investors. By establishing the authority to implement a similar program, SB 3081 SD1 HD1 allows HTA to utilize Hawaii's unique geographic location to expand the scope of one of its events to provide an environment for innovative businesses and investors to come together and create new opportunities.

Thank you for the opportunity to testify.

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SUBJECT: TRANSIENT ACCOMMODATIONS, Disposition for innovative business interaction program

BILL NUMBER: SB 3081, HD-1

INTRODUCED BY: House Committees on Tourism and Economic Development and Business

BRIEF SUMMARY: Amends HRS section 237D-6.5(b)(2) to increase the amount of transient accommodations tax (TAT) allocated to the tourism special fund from \$_____ to \$_____; also provides that on July 1, 2014, \$500,000 of the amount allocated to the tourism special fund shall be expended annually for an innovative business interaction program.

Adds a new section to HRS chapter 201B to establish an innovative business interaction program for investors and talent.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: Currently, TAT revenues are allocated as follows: (1) \$33 million is deposited into the convention center enterprise special fund; (2) \$82 million is deposited into the tourism special fund; (3) \$93 million is transferred to the various counties; and (4) any remaining revenues deposited into the general fund. The proposed measure would increase the amount of TAT revenues allocated to the tourism special fund and then appropriate monies to the innovative business interaction program to increase the interaction of business investors and talent.

The proposed measure would add another siphon of TAT revenues, and would perpetuate the earmarking of TAT revenues for activities other than tourism. If there are insufficient funds to promote the industry, then visitor counts will drop and so will the income that fuels the state's economy. But visitors also contribute to state coffers directly through the taxes on everything they purchase in Hawaii including hotel rooms, visitor activities and purchases of food and souvenirs. To that extent, a good part of the general fund tax collections is contributed by visitors. If the argument is that visitors should pay for other "visitor related" programs, then paying for those programs out of general funds would be more appropriate than stealing the money from what is identified as a tax paid specifically by the visitor.

Rather than the continual earmarking of TAT revenues, a direct appropriation of general funds would be preferable. Earmarking the TAT revenues for these programs that benefit the community at large is an easy way to lose accountability and oversight over the programs. Because these are among many worthy causes that need to be considered in the budgeting process, special funding this or any other cause represents poor public finance policy.

Digested 3/25/14