STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

JAN K. YAMANE
Acting State Auditor
(808) 587-0800
FAX: (808) 587-0830

TESTIMONY OF SIMEON R. ACOBA, CHAIR, STATE-COUNTY FUNCTIONS WORKING GROUP, ON HOUSE BILL NO. 379, HOUSE DRAFT 1, RELATING TO FINANCING FOR A NEW HOSPITAL IN NORTH KONA

House Committee on Tourism
February 18, 2015

Chair Brower and Members of the Committee:

I am Simeon R. Acoba, Chair of the State-County Functions Working Group. Thank you for the opportunity to comment on House Bill No. 379, House Draft 1, relating to financing for a new hospital in north Kona. This measure would, among other purposes, allocate a portion of the TAT to fund the bond issuance.

The Working Group was created by Act 174 (SLH 2014) and administratively placed within the Office of the Auditor. The Working Group, which first convened in October 2014, is comprised of 13 members appointed by the Governor, the Senate President, the Speaker of the House of Representatives, each of the county mayors, and the Chief Justice. The group is assigned the following responsibilities:

1) Evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and

2) Submit a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

Act 174 requires the Working Group to submit two reports: 1) an Interim Report, which was delivered to the Legislature, Governor, and each of the county mayors, on December 18, 2014; and 2) a Final Report with its findings and recommendations to the same parties 20 days prior to the convening of the 2016 Regular Session.

The Working Group will continue its work through 2015 and shall cease to exist upon the adjournment sine die of the 2016 Regular Session. We note that any TAT legislation passed this year may affect the on-going work of the Working Group. Accordingly, while we take no position on the merits of this bill, we respectfully request your consideration of deferring decisions on TAT legislation introduced this year to the 2nd year of the 28th State Legislature to enable the the Working Group to complete its work. As required by Act 174, the Working Group will report its findings and make recommendations prior to the 2016 Regular Session.

Thank you for the opportunity to offer comments on House Bill No. 379, House Draft 1. I am available for your questions.

HAWAIʻI TOURISM
AUTHORITY

Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815
kelepona tel 808 973 2255
kelepaʻi fax 808 973 2253
kahua paʻa web hawaiitourismauthority.org

David Y. Ige
Governor

Ronald Williams
Chief Executive Officer

Testimony of
Ronald Williams
President and Chief Executive Officer
Hawaiʻi Tourism Authority
on
H.B. No. 379, H.D.1
Relating to Financing for a New Hospital in North Kona
House Committee on Tourism
Wednesday, February 18, 2015
9:30 a.m.
Conference Room 312

The Hawaii Tourism Authority opposes H.B. 379, H.D.1, which proposes to allocate portion of the transient accommodations tax (TAT) revenues for the payment of expenses related to general obligation bonds for a new North Kona Hospital.

In 2014, the Legislature established a state-county working group to submit recommendations on the appropriate allocation of TAT revenues between the State and counties that properly reflects the duties and responsibilities relating to the provision of public services. We feel, therefore, that rather than make changes to the allocation of TAT revenues, the working group be given the time to do their analysis and submit their report to the Legislature.

We defer to the Department of Budget and Finance on the propriety of the method of financing proposed by H.B. 379, H.D.1.

Mahalo for the opportunity to offer these comments.

WRITTEN ONLY

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON TOURISM
ON
HOUSE BILL NO. 379, H.D. 1

February 18, 2015

RELATING TO FINANCING FOR A NEW HOSPITAL IN NORTH KONA

House Bill No. 379, H.D. 1, authorizes the issuance of general obligation bonds to develop a new Hawaii Health Systems Corporation (HHSC) hospital in North Kona and allocates an undetermined portion of the Transient Accommodations Tax to fund the bond issuance.

The Department of Budget and Finance strongly recommends that the building of new HHSC facilities be deferred until the underlying sustainability issues that plague HHSC are addressed.

HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

"Quality Healthcare For All"

House Committee on Tourism
Representative Tom Brower, Chair
Representative Takashi Ohno, Vice Chair

February 18, 2015
Conference Room 312
9:30 a.m.
Hawaii State Capitol

Testimony Supporting the Intent of House Bill 379, HD1, Relating To Financing for a New Hospital In North Kona
Authorizes the issuance of general obligation bonds to develop a new HHSC hospital in North Kona. Allocates a portion of the Transient Accommodations Tax to fund the bond issuance.

Linda Rosen, M.D., M.P.H.
Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in support of the intent of HB 379, HD1, which authorizes the issuance of general obligation bonds to develop a new HHSC hospital in North Kona.

The need for a new hospital in Kona in order to meet the health care needs of the communities is well documented. The population base of the Kona community had shifted toward the current location of Kona town decades ago, yet the current hospital remains far south of that site. HHSC appreciates the intent of this bill; however, this project must be balanced against other capital priorities of the system and the State of Hawaii.

HHSC takes no position on the appropriations request, deferring to the Governor's Executive Budget Request for fiscal priorities.

Thank you for the opportunity to testify before this committee.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Disposition for new north Kona hospital

BILL NUMBER: HB 379, HD-1

INTRODUCED BY: House Committee on Health

EXECUTIVE SUMMARY: This bill adds a new earmark on the transient accommodations tax (TAT) to finance a new hospital in North Kona. Earmarks decrease transparency and accountability of government operations and should be avoided.

BRIEF SUMMARY: Amends HRS section 237D-6.5(b) to add a new paragraph (6) to provide that of the excess TAT revenues, $______ shall be allocated to the department of budget and finance for the payment of expenses, including interest and debt service to issue general obligation bonds to finance a new hospital in North Kona.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The legislature by Act 161, SLH 2013, made permanent the TAT rate of 9.5% and changed the allocations of TAT from a percentage basis to a specific dollar amount. Currently, TAT revenues are allocated as follows: (1) $26.5 million is deposited into the convention center enterprise special fund; (2) $82 million into the tourism special fund; (3) $103 million is transferred to the various counties; (4) $3 million for debt service of the Turtle Bay conservation easement; and (5) any remaining revenues deposited into the general fund of which $3 million is to be allocated according to the Hawaii tourism strategic plan. This measure would then divert a portion of the remaining revenues that are to be deposited into the general fund, for the issuance of bonds for the construction of a new hospital in North Kona.

The proposed measure would add another siphon of TAT revenues and would perpetuate the earmarking of TAT revenues. While proponents of earmarking of the TAT argue that if these projects or programs are not funded, none of the pristine beauty that visitors come to see will be preserved, one could make the argument on the other side - 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. Lawmakers seem to have lost sight of the fact that visitors also contribute to state coffers directly through the 4% on everything they purchase 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 not only benefit the visitors but the community at large, decreases transparency and accountability.

Next, it should be remembered that revenues diverted for a special purpose, in this case to service the general obligation bonds for the North Kona hospital, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Finally, the adoption of this measure may set a precedent that may lead to other requests for funding from the TAT for other "tourist-related" purposes. The connection between transient occupancy and a hospital in North Kona is pretty thin, and establishing this as a precedent will open the barn doors wide for other earmarking requests.

Digested 2/17/15