

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

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON FINANCE
Wednesday, March 4, 2015
1:30 PM
State Capitol, Conference Room 308
in consideration of
HB 716, HD1

RELATING TO INNOVATIVE BUSINESS INTERACTION

Chair Luke, Vice Chair Nishimoto and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports HB 716, HD 1, which seeks to establish an innovative business interaction program for investors and innovative talent, bringing international attention to Hawaii as a hub for Innovation and Creative Industries. We defer to HTA as to the means of financing for this program.

DBEDT recommends including the areas of technology and interactive media in Section 2 to broaden the scope of the event focus to include these key aspects of an innovation ecosystem:

SECTION 2. Chapter 201, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§201- Innovative business interaction program for investors and talent. (a) For the purposes of this section:

"Event organizer" or "organizer" means a person or entity which ~~who~~ organizes and operates a cultural, arts, entertainment, technology, interactive media, culinary, or athletic other event annually in Hawaii that attracts visitors and residents.

DBEDT's Creative Industries Division (CID) and attached agencies have the expertise to capitalize on existing and newly developed innovation initiatives to develop, manage and launch such an effort for our State. This past year, DBEDT has held strategic discussions with industry to build a strong foundation for the creation of Hawaii's own South By Southwest (SXSW), resulting in the convergence of the Hawaii's innovation economy sectors of Technology, Energy, Creative Media, Film, Music, Design and Fashion clustered during the Fall timeframe.

DBEDT's Creative Lab and HI Growth Initiative together with Blue Startups' East Meets West Conference (EMW), Hawaii International Film Festival (HIFF), Hawaii Academy of Recording Arts (HARA), Honolulu Fashion Week/Month, and GVS Transmedia Accelerator's Showcase have planted the seeds of a business interaction program. Harnessing the collective power of these programs, coupled with other events during the fall timeframe including the Honolulu Biennial, Pacific Islanders in Communications' (PIC) Hawaiian Media Makers Conference, an effective program has the potential to grow to a world-class destination event. Music industry related initiatives in the Spring such as Mele Mai, the Hoku Awards and HARA have the potential for a similar effort supporting both tourism and business development for our State.

DBEDT welcomes the opportunity to work with the Legislature, business and investment community and tourism sectors to establish the framework, messaging and marketing to attract global interest and showcase Hawaii as an innovation and creative business hub of the Pacific.

Thank you for the opportunity to testify on this measure.

WRITTEN ONLY

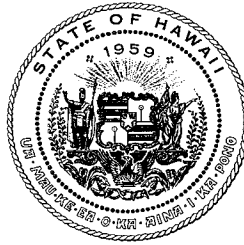
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 716, H.D. 1

March 4, 2015

RELATING TO INNOVATIVE BUSINESS INTERACTION

House Bill No. 716, H.D. 1, establishes an Innovative Business Interaction Program under the Department of Business, Economic Development and Tourism, with assistance from the Hawaii Tourism Authority. The bill also increases the Transient Accommodations Tax revenues deposited into the Tourism Special Fund by \$500,000 to be used to fund the Innovative Business Interaction Program.

The Department of Budget and Finance is concerned that this measure would divert \$500,000 per year from the general fund. This diversion is not accounted for in the Administration's general fund financial plan.



**TESTIMONY OF SIMEON R. ACOBA, CHAIR,
STATE-COUNTY FUNCTIONS WORKING GROUP, ON
HOUSE BILL NO. 716, HOUSE DRAFT 1,
RELATING TO INNOVATIVE BUSINESS INTERACTIONS**

**House Committee on Finance
March 4, 2015**

Chair Luke 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. 716, House Draft 1, relating to innovative business interactions. This measure would, among other purposes, amend the amount of transient accommodations tax (TAT) revenues allocated to the counties from a specified sum to a percentage of the revenues allocated.

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. 716, House Draft 1. I am available for your questions.

Written Statement of
ROBBIE MELTON
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, March 4, 2015
1:30 p.m.
State Capitol, Conference Room 308
In consideration of

HB716 HD1 RELATING TO INNOVATIVE BUSINESS INTERACTION.

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

The High Technology Development Corporation (HTDC) **supports the intent** of HB716 HD1 relating to establishing an innovative business interaction program under Department of Business, Economic Development and Tourism (DBEDT).

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC supports initiatives aimed at improving Hawaii's reputation as a place for innovation and a place to do business. An innovative business interaction event with the spirit of the South by Southwest would build on the current efforts of HTDC, DBEDT, and DBEDT attached agencies. In 2015, HTDC sponsored 14 tech related events with over 2,000 participants. Similarly, HTDC was a sponsor for the Made in Hawaii festival which drew over 40,000 people in a single weekend. Bringing attention to innovation at this scale would not only improve our reputation as innovators, but has the potential to impact our culture and inspire future generations.

HTDC defers to the appropriate Departments regarding the procurement, cost, and administration of the program. We request the correction of the defective effective date for this bill.

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 4, 2015
1:30 PM
State Capitol, Conference Room 308

In consideration of
HB 716 HD1 RELATING TO INNOVATIVE BUSINESS INTERACTION.

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

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of HB 716 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 profitable businesses 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.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Disposition for innovative business interaction program

BILL NUMBER: HB 716, HD-1

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

EXECUTIVE SUMMARY: This bill adjusts earmarks on the transient accommodations tax (TAT) that feed various special funds. Earmarks decrease transparency and accountability of government operations and should be avoided.

BRIEF SUMMARY: Amends HRS section 237D-6.5(b)(2) to increase the amount of transient accommodations tax allocated to the tourism special fund from \$82,000,000 to \$82,500,000.

Appropriates \$500,000 out of the tourism special fund in fiscal 2016 to the 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: February 19, 2025

STAFF COMMENTS: Currently, TAT revenues are allocated as follows: (1) \$26.5 million is deposited into the convention center enterprise special fund; (2) \$82 million is deposited into the tourism special fund; (3) \$103 million is transferred to the various counties; (4) \$3 million is for debt service of the Turtle Bay conservation easement; and (5) any remaining revenues deposited into the general fund of which \$3 million is allocated in accordance with the Hawaii tourism authority strategic plan. The proposed measure would increase the amount of TAT revenues allocated to the tourism special fund by \$500,000 and then appropriate the same amount 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 not only benefit the visitors but the community at large, decreases transparency and accountability.

Finally, it should be remembered that revenues earmarked into a special fund, in this case the tourism special fund, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Digested 3/2/5