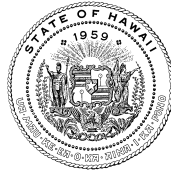


DAVID Y. IGE
GOVERNOR



WRITTEN ONLY

WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON TOURISM AND INTERNATIONAL AFFAIRS
AND PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS
ON
SENATE BILL NO. 2987**

February 16, 2016
1:15 p.m.

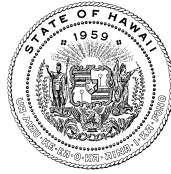
RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Senate Bill No. 2987 increases the allocation of transient accommodations tax (TAT) revenues to the counties from \$93 million to \$103 million for FY 17 and beyond. The bill also establishes a State-County Functions Working Group on July 1, 2022, to evaluate the division of duties and responsibilities between the State and counties and to submit a report of its findings and recommendations on the appropriate allocation of TAT revenues to the counties 20 days prior to the convening of the Regular Session of 2023.

The Department of Budget and Finance believes that increasing the county's fixed share of the TAT revenues as proposed in this bill is preferable to the recommendation proposed by the State-County Functions Working Group Report, dated December 2015.

The department also believes that the establishment of a second working group is unnecessary.

DAVID Y. IGE
GOVERNOR



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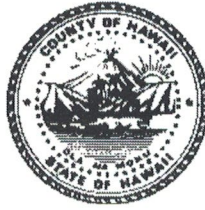
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Margaret Wille
Council Member
District 9 - North and South Kohala



Phone No. Hilo: (808) 961-8027
Phone No. Waimea: (808) 887-2043
Fax No.: (808) 887-2072
E-Mail: mwille@co.hawaii.hi.us

HAWAI'I COUNTY COUNCIL

County of Hawai'i

Hawai'i County Building
25 Aupuni Street
Hilo, Hawai'i 96720

Holomua Center
64-1067 Mamalahoa Highway, Suite C-5
Waimea, Hawai'i 96743

West Hawai'i Civic Center Bldg. A
74-5044 Ane Keohokalole Hwy.
Kailua-Kona, Hawai'i, 96740

To: Honorable Kalani English and Members, Comm. on Tourism and International Affairs
Honorable Clarence Nishihara and Members, Comm. Public Safety, Intergovernmental, and
Military Affairs

Re: SB 2987 Relating to the TAT Position: Strong **OPPOSITION**

Date of hearing: February 16, 2016 1:15 pm

I am outraged by SB 2987 – capping the Counties' portion of the TAT revenues at \$103 million. Senator Tokuda claims that rather than the percentage State/County allocation being based on the relative proportion of expenditures of tourism related costs, the percentage allocation should be based on the proportionate share of expenditures for all public services. The Senator also claims a cap is good to promote better budgetary practices by the Counties.

HOGWASH!

Not so long ago when the State's economy was tanking (so too the Counties' economies) you – our State legislators – said to the Counties, the State would temporarily usurp most of the TAT revenues and place a low cap the Counties' portion BUT that as soon as the economy was on the upswing that 44.8% percentage (no cap) allocation of the TAT revenues would go back to the Counties. However when the TAT revenues did rebounded, you – our State legislators – instead set up the State-County Working Group to determine the proportionate share of tourism related expenditures and accordingly recommend the appropriate allocation of TAT revenue between the State and the Counties. Given the additional appointment of State –slated industry representatives and a State – slanted consultant, the final recommendation of the Working Group was clearly slanted in favor of the State's interest. (Example: by including various state earmarks "above the line", rather than designating those as part of the State's percentage allocation.)

Yet as slanted in favor of the State as is the Working Group's recommendation and report, unbelievably SB2987 challenges that recommendation with lame arguments in favor of retaining the \$103 million cap to be split between the Counties. I am outraged!! Senator Tokuda should be ashamed. **Please replace the contents of this bill with the contents of the State-Counties (TAT) Working Group's bill SB2028.**

Sincerely

A handwritten signature in black ink that reads "Margaret Wille".

Margaret Wille, Councilmember District 9 (North and South Kohala)

*Serving the Interests of the People of Our Island
Hawai'i County Is An Equal Opportunity Provider And Employer*

COUNTY COUNCIL

Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Mason K. Chock
Gary L. Hooser
Arryl Kaneshiro
KipuKai Kualii
JoAnn A. Yukimura



OFFICE OF THE COUNTY CLERK

Jade K. Fountain-Tanigawa, County Clerk
Scott K. Sato, Deputy County Clerk

Telephone (808) 241-4188
Fax (808) 241-6349
Email cokcouncil@kauai.gov

Council Services Division
4396 Rice Street, Suite 209
Lihu'e, Kaua'i, Hawai'i 96766

February 11, 2016

**TESTIMONY OF MEL RAPOZO
COUNCIL CHAIR, KAUAI COUNTY COUNCIL
ON**

**SB 2987, RELATING TO THE TRANSIENT ACCOMMODATIONS TAX
Senate Committee on Tourism and International Affairs and
Senate Committee on Public Safety, Intergovernmental, and Military Affairs
Tuesday, February 16, 2016
1:15 p.m.
Conference Room 229**

Dear Vice Chair English, Chair Nishihara, and Members of the Committees:

Thank you for this opportunity to provide testimony in opposition to SB 2987, Relating to the Transient Accommodations Tax. My testimony is submitted in my capacity as Chair of the Kaua'i County Council.

The State-County Functions Working Group ("Working Group") issued its final report and recommendations to the Legislature in December 2015, after two years of intensive research and hard work. The Working Group recommended an allocation to the counties of 45 percent of the remaining transient accommodations tax (TAT) revenues after adjustments to the Tourism Special Fund. As partners in Hawai'i's governance, it is critical that the State provide a greater share of TAT revenues to the counties, who are responsible for providing essential services to residents and visitors. The collective cost of county services for police, fire, and parks have increased by \$170.3 million since 2007, a 30 percent increase. In comparison, the counties have received only a 2.2 percent increase in TAT revenues over that same period. By unfairly denying TAT revenue to the counties, the State has been effectively requiring residents to pay for the visitors' share of expenses.

For the reasons stated above, I urge the Senate Committee on Tourism and International Affairs and the Senate Committee on Public Safety, Intergovernmental, and Military Affairs to oppose this measure, and to support the Working Group's recommendation of a 45/55 (County/State) split. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

MEL RAPOZO
Council Chair, Kaua'i County Council

AMK:lc

Hawai`i State Association of Counties (HSAC)

Counties of Kaua`i, Maui, Hawai`i and City & County of Honolulu

200 S. High Street, Wailuku, Hawaii 96793 (808) 270-7665

www.hicounties.com



February 15, 2016

TO: The Honorable J. Kalani English, Chair
Senate Committee on Tourism and International Affairs

The Honorable Clarence K. Nishihara, Chair
Senate Committee on Public Safety, Intergovernmental, and Military Affairs

FROM: Michael P. Victorino
HSAC President



SUBJECT: **HEARING OF FEBRUARY 16, 2016; TESTIMONY IN OPPOSITION TO SB 2987, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify on behalf of the Hawaii State Association of Counties in **opposition** to this measure. The purposes of this measure are to establish an annual allocation of Transient Accommodations Tax revenue to the counties in the amount of \$103 million and to create a State-County Functions Working Group on July 1, 2022 to recommend the appropriation allocation of TAT revenue between the State and counties.

HSAC opposes this measure for the following reasons:

1. It is the best interest of Hawaii residents for the counties to receive a formula-based percentage of the TAT rather than a fixed or capped amount. The proposed capped amount is not adequate to provide services in response to growing visitor demands. HSAC supports increasing the counties' share of the TAT.
2. The State-County Functions Working Group created under Act 174 (2014) has conducted a thorough study of the history and purpose of the TAT. The Working Group has concluded it would be fair for the counties to get 45 percent of available TAT revenue, with the State getting 55 percent. Creating another Working Group at taxpayers' expense is unnecessary.

Mahalo for your consideration.

HSAC:FY2016:16Testimony:SB2987a_mkz

Council Chair
Mike White

Vice-Chair
Don S. Guzman

Presiding Officer Pro Tempore
Michael P. Victorino

Councilmembers
Gladys C. Baisa
Robert Carroll
Elle Cochran
Don Couch
Stacy Crivello
Riki Hokama




Director of Council Services
David M. Raatz, Jr., Esq.

COUNTY COUNCIL
COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 12, 2016

TO: The Honorable J. Kalani English, Vice-Chair
Senate Committee on Tourism and International Affairs
The Honorable Clarence K. Nishihara, Chair
Senate Committee on Public Safety, Intergovernmental, and Military Affairs

FROM: Mike White
Council Chair 

SUBJECT: **HEARING OF FEBRUARY 16, 2016; TESTIMONY IN OPPOSITION TO SB 2987, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in **opposition** to this bill. The purposes of this measure are to establish an annual allocation of Transient Accommodations Tax revenue to the counties in the amount of \$103 million and to create a State-County Functions Working Group on July 1, 2022 to recommend the appropriate allocation of TAT revenue between the State and counties.

The Maui County Council has not had the opportunity to take a formal position on this matter. Therefore, I am providing this testimony in my capacity as an individual member of the Council.

In addition to serving as Council chair, my testimony is also informed by my visitor-industry experience as general manager of the Ka'anapali Beach Hotel for 30 years and through my service as a State legislator from 1993 to 1998.

I oppose this measure for the following reasons:

1. This measure would codify the ill-advised policy that the allocation of TAT revenue to the counties should be based on the proportionate expenditures by the State and the counties for all public services. This contradicts the conceptual and legal bases for the TAT. Act 185 (1990) set the TAT rate at 5 percent, with 95 percent of revenue returned to the counties under a statutorily established formula to cover visitor related expenses. The State retained 5 percent for administrative purposes. Beginning in 2009, the Legislature dramatically reallocated TAT to help balance the State budget due to the economic downturn. The State increased their TAT share by arbitrarily capping the counties' allocation, but offered no assistance as the counties also experienced economic hardship in the ensuing years.

2. Today, the State should have adequate resources to return additional TAT resources to the counties because General Fund revenues for FY 2017 are projected to be more than \$7.1 billion and State revenues have increased year over year, amounting to \$547 million over FY 2016, or 8.3 percent; \$825 million over FY 2015, or 13.1 percent; and \$1.1 billion over FY 2014, or 19.2 percent.
3. The State-County Functions Working Group created under Act 174 (2014) issued a report that found the counties are responsible for 54 percent of net expenditures directly related to tourism, and the State provides 46 percent. I support the Working Group's recommendation to increase the allocation of TAT revenue to the counties. But, **an equal 50-50 split of total TAT collections** between the State and the counties would be more consistent with the TAT's history and purpose. As partners in Hawaii's governance, it is critical that the State provide a greater share of TAT to the counties, which provides essential services to residents and visitors.
4. From 2007 to 2015, the State's TAT revenue increased by \$196.6 million (or 2,363 percent), while the counties' TAT revenue increased by a mere \$2.2 million (or 2.2 percent). Yet, the collective cost of county services for police, fire, and parks increased by \$170.3 million over the same period (or 30 percent). The reasonable action now is to return a fair share of the TAT to the counties, which bear significant responsibility to provide services and infrastructure to support increased visitor industry demands. By unfairly denying TAT revenue to the counties, the State has been effectively requiring residents to pay for the visitors' share of expenses.
5. The policy for TAT revenue distribution should again be based on a formula that returns a set percentage of revenue to the counties where it is earned, rather than a fixed amount. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change the statute. A fixed-distribution policy gives the wrong impression that returning TAT revenue to the counties is a sort of charitable donation and requires the counties to beg the Legislature for more money as visitor-related expenses grow.

For the foregoing reasons, **I oppose** this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Allocations to Counties

BILL NUMBER: SB 2987

INTRODUCED BY: TOKUDA

EXECUTIVE SUMMARY: Makes permanent the annual \$103,000,000 allocation of transient accommodations tax revenues to the counties. Requires the establishment of a state-county functions working group in 2022 to re-evaluate the division of revenue. The counties wanted stable, predictable revenue. They get it in this bill.

BRIEF SUMMARY: Amends HRS section 237D-6.5 to distribute TAT revenues in the following priority order:

- \$1.5 million for the Turtle Bay conservation easement special fund;
- \$26.5 million for the convention center enterprise special fund;
- \$82 million for the tourism special fund;
- \$103 million to be distributed among the counties in specified percentages:
 - Kauai county, 14.5% (of the 45%);
 - Hawaii County, 18.6%;
 - City and County of Honolulu, 44.1%;
 - Maui County, 22.8%; and
- \$3 million to the special land and development fund.
- Any revenues remaining would go to the State general fund.

Establishes a state-county functions working group to be formed on July 1, 2022, similar to that formed by Act 174, SLH 2014. This group shall cease to exist upon the adjournment of the regular legislative session of 2023.

EFFECTIVE DATE: June 30, 2016.

STAFF COMMENTS: In law prior to 2009, the TAT was levied at the rate of 7.25% on most transient accommodations. Once collected, the tax, after satisfying specified earmarks, was distributed 44.8% to the counties. Act 61, SLH 2009, increased the TAT rate to 8.25% between 7/1/09 and 6/30/10 and to 9.25% between 7/1/10 to 6/30/15. Act 161, SLH 2013, made permanent the TAT rate of 9.25% and changed the allocations of TAT from a percentage basis to a specific dollar amount.

After the counties complained about their allocations, Act 174, SLH 2014, required a state-county functions working group to be convened to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services and to recommend an 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.

The bill rejects that recommendation and keeps the \$103 million cap on the county allocations until 2022.

In several of the hearings in previous years, the counties insisted on having a stable, predictable source of funding. This bill will give them a fixed number for five years or so. Wouldn't that be stable and predictable? Perhaps the moral of the story is to be careful what you wish for.

Digested 2/4/16