

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 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Stacy Crivello
HSAC President

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN SUPPORT OF
HB 317, RELATING TO THE TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify on behalf of the Hawaii State Association of Counties in **support** of this measure. The purpose of this measure is to lift the cap and adjust the TAT allocation to the counties to equal 45 percent of the amount of revenues remaining after all other allocations are made.

This measure is included in the 2017 Hawaii State Association of Counties Legislative Package. Therefore, I submit this testimony on HSAC's behalf.

HSAC supports this measure for the following reasons:

1. This measure supports the work done in 2015 by the State-County Functions Working Group, tasked by the Legislature to recommend an appropriate allocation of the transient accommodations tax revenues between the State and counties. The comprehensive study proposed a 55-45 percent split based on a review of state and county functions. Instead of adopting the working group's recommendation, the 2016 Legislature set a fixed amount of \$103 million to be divided among the counties rather than allocating funds on a percentage basis.
2. Without a fair share of the TAT, county residents are burdened by expenses that should be paid for by the visitors' tax. Operational costs have increased dramatically for county-maintained services such as water and sewer service; police, fire and ocean safety protection; development and upkeep of most roads; and park development and maintenance.
3. The burden on the counties to pay for visitor-related expenses is unsustainable without additional financial support. Therefore, the counties support lifting the fixed cap in favor of using a fair formula for the distribution of TAT.

Mahalo for your consideration.

HSAC:FY2017:17Testimony:HB317a_mkz

DAVID Y. IGE
GOVERNOR

LATE



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
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)

WRITTEN ONLY
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON TOURISM
ON
HOUSE BILL NO. 317

February 14, 2017
10:00 a.m.
Auditorium

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

House Bill (H.B.) No. 317 adjusts the allocation of transient accommodations tax (TAT) revenues to the Tourism Special Fund for inflation and adjusts the allocation to the counties to equal 45% of the revenues remaining after all other allocations are made.

The Department of Budget and Finance has serious concerns with this measure, as it will have a significant adverse impact on the Administration's General Fund Financial Plan. The general fund loss will reduce the general fund balance, thereby limiting the Administration's flexibility in dealing with fiscal contingencies and jeopardizing the Administration's biennium budget request.

Using the Council on Revenues' January 4, 2017 forecast for TAT collections and applying the changes to Section 237D-6.5, HRS, included in H.B. No. 317, the State general fund stands to incur a net deficit of \$74.9 million for FY 18 and \$83.4 million for FY 19. Higher losses can be expected in FY 20 and beyond. H.B. No. 317 also would cause a general fund revenue loss through the annual inflation adjustment to the \$82 million allocation to the Tourism Special Fund.

Thank you for your consideration of our comments.

COUNTY COUNCIL

Mel Rapozo, Chair
Ross Kagawa, Vice Chair
Arthur Brun
Mason K. Chock
Arryl Kaneshiro
Derek S.K. Kawakami
JoAnn A. Yukimura



OFFICE OF THE COUNTY CLERK

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

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

February 10, 2017

TESTIMONY OF MEL RAPOZO
COUNCIL CHAIR, KAUA'I COUNTY COUNCIL
ON
HB 317, RELATING TO THE TRANSIENT ACCOMMODATIONS TAX
House Committee on Tourism
Tuesday, February 14, 2017
10:00 a.m.
Auditorium

Dear Chair Onishi and Members of the Committee:

Thank you for this opportunity to provide testimony in strong support of HB 317, Relating to the Transient Accommodations Tax (TAT). My testimony is submitted in my individual capacity as Council Chair of the Kaua'i County Council and as Secretary of the Hawai'i State Association of Counties (HSAC).

This Bill, which is a part of the 2017 HSAC Legislative Package proposes to implement the recommendations of the State-County Functions Working Group to adjust the allocation of transient accommodations tax revenues to the Tourism Special Fund for inflation and adjusts the allocation to the counties equal to forty-five percent (45%) of the remaining TAT revenues after all other allocations have been made.

Approval of this measure is critical for the Counties to continue to provide the much needed services that benefit our local residents, as well as the visitors to our islands. The cost of critical County government services such as police, fire, ocean safety, emergency management, parks maintenance, and critical infrastructure development and upkeep continue to increase. With the counties' share of the TAT essentially being capped, the responsibility to pay for these essential services shifts to our island residents. TAT moneys have been a major source of funding for the counties, and is essential to the counties' fiscal ability to address the basic needs of our residents, as well as visitors to our state.

For the reasons stated above, I urge the House Committee on Tourism to support this measure. 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

From the office of -
Council Member
District 3



Office: (808) 961-8396
Fax: (808) 961-8912
Email: sue.leeloy@hawaiicounty.gov

SUSAN L.K. LEE LOY

25 Aupuni Street, Hilo, Hawai'i 96720

The Honorable Richard H.K. Onishi, Chair
And members of the Committee on Tourism

February 13, 2017

Dear Chair Onishi and Committee Members,

Thank you for the opportunity to provide testimony in strong support of House Bill 317. This bill adopts the recommendations of the State-County Functions Working Group that was created pursuant to Act 174 (SLH 2014). The working group recommended:

- The Tourism Special Fund (TSF) receive \$82 million in fiscal year (FY) 2015 and FY2016, and amounts changing in line with the Consumer Price Index for Urban Consumers (Honolulu) in subsequent years;
- Existing appropriations for the Convention Center, Turtle Bay, and the Special Land Development Fund, totaling \$31 million, continue at the same level in future years; and
- The remainder of the TAT revenues be allocated to the State and counties, with the State receiving 55 percent of the remainder, and the counties receiving 45 percent.

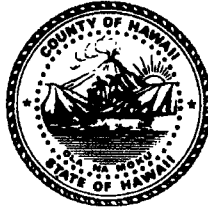
The working group reached its recommendations through an extensive study of the most appropriate expenditures for the expenditure of the transient accommodations tax. Thank you again for the opportunity to provide testimony.

Aloha Piha,



Sue Lee Loy
Council Member, District 3

Harry Kim
Mayor



Wil Okabe
Managing Director

Barbara J. Kossow
Deputy Managing Director

County of Hawai'i
Office of the Mayor

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(808) 323-4444 • Fax (808) 323-4440

February 13, 2017

Representative Richard Onishi
Tourism Committee
Hawai'i State Capitol
Honolulu, HI 96813

Dear Chair Onishi and members:

RE: **HB 317**

Thank you for this opportunity to testify in support of HB 317.

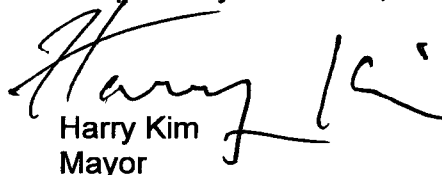
Given Hawaii County's limited resources (and seemingly unlimited needs), we are fortunate that the Legislature has allowed the counties to share in the TAT. The TAT is a vital revenue source in balancing our budget, and we thank you for it.

Since the State and the counties serve the same constituents, it is important that we continue to work as partners in meeting the needs of our communities. As demand for services is ever increasing (and so is the cost of those services), it is equally important that revenue be appropriately shared so that the demands can be met to the best of our collective ability.

Although I could hope for even more, HB 317 seems to be a reasonable division of revenue among the various parties that are looking for a piece of the TAT pie. HB 317 recognizes that there should not be a cap on the counties' share, and that without TAT, the counties would be forced to raise property taxes and/or reduce services to levels that most would find unacceptable.

I urge you to approve HB 317.

Respectfully submitted,

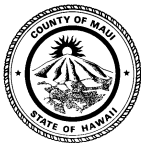

Harry Kim
Mayor

Council Chair
Mike White

Vice-Chair
Robert Carroll

Presiding Officer Pro Tempore
Stacy Crivello

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Elle Cochran
Don S. Guzman
Riki Hokama
Kelly T. King
Yuki Lei K. Sugimura



Director of Council Services
Sandy K. Baz

COUNTY COUNCIL

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

February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Mike White
Council Chair

A handwritten signature in black ink, appearing to read "Mike White", is written over the printed name and title.

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN SUPPORT OF HB 317, RELATING TO TRANSIENT ACCOMODATIONS TAX**

Thank you for the opportunity to testify in **support** of this measure. This bill adjusts the allocation of the transient accommodations tax ("TAT") revenues to the tourism special fund and adjusts the allocation to the counties to equal 45 percent of the amount of revenues remaining after all other allocations are made.

This measure is in the 2017 Hawaii State Association of Counties Legislative Package and therefore, I submit this testimony on behalf of the Maui County Council.

In addition to serving as chair of the Maui County Council, 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.

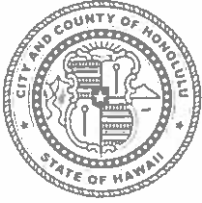
I **support** this measure for the following reasons:

1. 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 supporting tourism, while the State provides 46 percent. They recommended that after specific appropriations, the remainder of the TAT should be allocated to the State and counties, with the State receiving 55 percent, and the counties receiving 45 percent.
2. The TAT was initially established to help the counties fund **visitor-related expenses** based on a **percentage of earned revenue**. Reducing the counties share of the TAT contradicts the conceptual basis for the tax.
3. Pursuant to Act 185 (1990), 95 percent of the TAT revenue was returned to the counties. The dramatic reallocation of the TAT in 2009 was to help balance the State budget due to the economic downturn. The State increased the TAT and arbitrarily capped the counties' share to help balance its budget, but offered no significant assistance as the counties experienced greater economic hardship in the ensuing years.

4. From Fiscal Year (“FY”) 2007 to FY 2015, the State’s annual share of TAT revenue has increased by \$196.6 million, while counties only received an additional \$2.2 million. 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.
5. During the same period, counties have incurred \$170 million in cost **increases** in fire, police, roads, and park services. County expenditures for tourism-related services continue to rise at a pace far exceeding the current distribution of TAT revenue. Sound fiscal practices favor a policy that **increases** the distribution of TAT revenue to the counties at the same rate that revenues grow.
6. 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 capped amount of money. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change the statute. A capped-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 **support** this measure.

ocs:proj:legis:17legis:17testimony:hb317_



CITY COUNCIL
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 202
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IKAIKA ANDERSON

Council Vice Chair

Councilmember, District 3

Email: ianderson@honolulu.gov

Phone: 808-768-5003

Fax: 808-768-1235

February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Councilmember Ikaika Anderson, Vice Chair
Honolulu City Council

A handwritten signature in black ink, appearing to be "Ikaika Anderson", is written over the "FROM:" line.

SUBJECT: TESTIMONY IN SUPPORT OF HB 317

HEARING: Monday, February 14, 2017, 10:00 AM
Auditorium, Hawaii State Capitol

I am Testifying in SUPPORT of HB 317, Relating to the Transient Accommodations Tax

This bill is included in the HSAC package. This measure supports the recommendations of the State-County Functions Working Group for a 45-55% split of the revenue.

Over the past years, HSAC has sought for a more equitable distribution of the TAT between the state and counties. To provide a comprehensive study, the Legislature convened a State-County Functions Working Group to review and make recommendations on what would be a fair distribution.

HSAC's bill mirrors legislation introduced by the State-County Functions Working Group recommending the Legislature to provide a fair 55-45 percent split between the state and counties.

I SUPPORT the passage of HB 317 and would like to thank the committee for the opportunity to testify on this important measure.

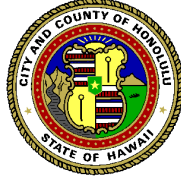
**OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU**

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KIRK CALDWELL
MAYOR

ROY K. AMEMIYA, JR.
MANAGING DIRECTOR

GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR



**CITY AND COUNTY OF HONOLULU
BEFORE THE HOUSE COMMITTEE ON TOURISM**

TUESDAY, FEBRUARY 14, 2017; 10:00 AM

**TO: THE HONORABLE RICHARD H.K. ONISHI, CHAIR
THE HONORABLE JAMES K. TOKIOKA, VICE CHAIR
AND MEMBERS OF THE HOUSE COMMITTEE ON TOURISM**

**FROM: KIRK CALDWELL, MAYOR
CITY AND COUNTY OF HONOLULU**

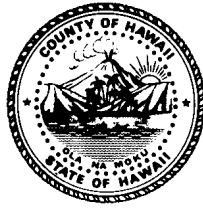
**SUBJECT: SUPPORT OF HB317 RELATING TO THE TRANSIENT
ACCOMMODATIONS TAX**

The City and County of Honolulu (City) strongly supports HB317, which adjusts the allocation of Transient Accommodations Tax (TAT) to the counties equal to 45 percent of the amount of revenues remaining after all other allocations are made. This measure follows the recommendations made by the State-County Functions Working Group established by Act 174, Session Laws of Hawaii 2014.

Each county expends significant amounts to accommodate the 8.9 million tourists who visit our State and relies on TAT revenues to provide such services. According to the State-County Functions Working Group December 2015 Report, the City spends approximately \$116 million on visitor-related expenses. Currently, the City receives about \$44 million, which means that Oahu taxpayers fund the remaining \$72 million.

This measure reflects a proper allocation of TAT revenues to the counties and the Tourism Special Fund. Thank you for your consideration of this testimony in strong support of HB317.

Aaron S. Y. Chung
Council Member
District 2 South Hilo



Phone No.: (808) 961-8272
Fax No.: (808) 961-8912
aaron.chung@hawaiicounty.gov

LATE

HAWAI'I COUNTY COUNCIL

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

**TESTIMONY OF AARON CHUNG
HAWAI'I COUNTY COUNCIL MEMBER**

**COMMITTEE ON TOURISM
HEARING DATE: TUESDAY, FEBRUARY 14, 2017**

IN SUPPORT OF HB317, RELATING TO THE TRANSIENT ACCOMODATIONS TAX

Chair Onishi and Committee Members,

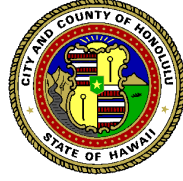
Thank you for allowing me the opportunity to voice my support for HB317, which adjusts allocation of transient accommodations tax revenues to the counties. This is one of several House and Senate bills which will be considered by the legislature this session, regarding the issue of TAT revenues. Rather than reiterate the many reasons offered by the Counties over the years in support of receiving a proportionate or increased amount of the TAT, let me simply say that I support all measures which strive toward that end.

Your support of HB317 and other bills aimed at ensuring the counties continue to receive TAT revenues will be greatly appreciated. Thank you for considering my thoughts on this matter.

LATE

**HONOLULU CITY COUNCIL
CITY AND COUNTY OF HONOLULU**

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Ron Menor
CHAIR & PRESIDING
OFFICER

IKAIKA ANDERSON
VICE CHAIR

Kymerly Marcos Pine
FLOOR LEADER

**CITY AND COUNTY OF HONOLULU
BEFORE THE HOUSE COMMITTEE ON TOURISM**

TUESDAY, FEBRUARY 14, 2017, 10:00 AM

**TO: THE HONORABLE RICHARD H. K. ONISHI, CHAIR
THE HONORABLE JAMES KUNANE TOKIOKA, VICE CHAIR
AND MEMBERS OF THE HOUSE COMMITTEE ON TOURISM**

FROM: COUNCIL CHAIR RON MENOR

**SUBJECT: TESTIMONY IN SUPPORT OF HB317, RELATING TO THE TRANSIENT
ACCOMODATIONS TAX**

My name is Ron Menor and I am here to testify as the Chair of the Honolulu City Council.

This legislation proposes to remove the cap and adjust the TAT allocation to the counties to equal 45 percent of the amount of revenues remaining after all other allocations are made.

In 2015, the State-County Functions Working Group was directed by the state legislature to come up with an appropriate allocation of the TAT revenues between the State and the Counties. The group released their study in December 2015 and proposed a 55-45 percent split based on a comprehensive review of County and State functions.

Despite their work, the 2016 legislature decided that \$103 million would be divided among the Counties, using the same allocation percentages set in 1990.

A record 8.9 million visitors came to the state in 2016, an increase of three percent from 2015, according to the Hawaii Tourism Authority. Visitor spending rose to a record \$15.6 billion. It was the fourth straight year that spending and arrivals reached year-end records.

The Counties' share of TAT revenue was capped at \$93 million in 2010, in part to compensate for the economic recovery following the international economic downturn of 2008. In 2013, that cap was increased to \$103 million.

In 2010, the TAT generated \$244 million in revenues with the Counties dividing their \$93 million share. By 2015, TAT revenues increased 43% to \$435 million but the counties share was capped at \$103 million.

As our costs increase, we need a more equitable share of TAT revenue to cover our visitor-related expenses.

We support the findings and proposals of the State-County Functions Working Group. Currently, City & County of Honolulu residents are paying for road repairs, water service, trash disposal, sewer service, police, fire, emergency services, ocean safety, park maintenance, and other County services that should be paid by the visitor's tax.

Thank you for the opportunity to offer testimony on this important matter.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Allocations to Counties

BILL NUMBER: HB 317

INTRODUCED BY: Souki by request

EXECUTIVE SUMMARY: Adjusts allocation of transient accommodations tax revenues to the tourism special fund for inflation. Adjusts allocation to the counties to equal 45% of the amount of revenues remaining after all other allocations are made

SYNOPSIS: Amends HRS section 237D-6.5 to distribute transient accommodations tax (TAT) revenues in the following priority order:

- \$82 million for the tourism special fund;
- \$26.5 million for the convention center enterprise special fund;
- \$3 million to the special land and development fund.
- \$1.5 million for the Turtle Bay conservation easement special fund;
- Of the revenues remaining, 45% 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%; and
 - Maui County, 22.8%; and
- Any revenues remaining would go to the State general fund.

Makes conforming amendments to HRS sections 87A-42 and 171-19.

EFFECTIVE DATE: July 1, 2017.

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, introduced by the Hawaii State Association of Counties, adopts the working group's recommendation.

Under that recommendation, the counties are looking to receive about \$150 million, considerably more cash than they have been getting over the past few years.

Digested 2/11/17

Submitted By	Organization	Testifier Position	Present at Hearing
Yuki Lei Sugimura	Individual	Support	No

Comments: