

DAVID Y. IGE
GOVERNOR



LAUREL A. JOHNSTON
DIRECTOR

KEN N. KITAMURA
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 LAUREL A. JOHNSTON
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2010**

**February 23, 2018
12:00 p.m.
Room 308**

RELATING TO TOURISM

House Bill (H.B.) No. 2010 forgives the debt owed to the State by the Hawaii Tourism Authority (HTA) for the Convention Center (CC) construction costs and related interest; reduces the current \$26,500,000 Transient Accommodations Tax (TAT) revenue allocation to the CC Enterprise Special Fund (CCESF) down to \$16,000,000; establishes the CC Repair and Maintenance Special Fund (CCRMSF) and allocates \$2,000,000 of TAT revenues in each year for FY 19 through FY 22 into the CCRMSF; establishes the CC Emergency Special Fund (CCESF) outside of the State treasury and allocates \$5,000,000 of TAT revenues in each year for FY 19 through FY 22 into the CCESF; and increases the minimum fund balance of the Tourism Emergency Special Fund to \$10,000,000 in FY 19; \$15,000,000 in FY 20; \$20,000,000 in FY 21; and \$25,000,000 in FY 22.

The Department of Budget and Finance (B&F) provided \$348,372,942 of reimbursable General Obligation (G.O.) bond proceeds to fund the construction of the Hawaii CC. The department subsequently entered into a repayment agreement with the CC Authority as the Legislature authorized the use of reimbursable G.O. bonds for the funding of the CC which required the CC Authority, and subsequently the HTA, to reimburse B&F for the debt service paid on the reimbursable G.O. bonds. In 2001, the repayment agreement was restructured with the HTA to lower the annual payment amounts to approximately \$26,400,000 per year and extend the final payment from

2017 to 2025. In 2011, the repayment agreement was again restructured to address a statutory oversight which extended the final payment to 2027. To ensure timely payment of our G.O. bond debt service payments, the department requests and budgets for the State's gross G.O. debt service payments, which includes debt service related to reimbursable G.O. bonds. The reimbursement of the debt service paid by departments or agencies such as the HTA, is then projected and accounted for as non-tax revenues. Current HTA payments average about \$20,000,000 per year, resulting in a \$6,000,000 general fund loss per year, which is accounted for in the General Fund Financial Plan. Forgiving the debt owed by the HTA to the State will result in an additional \$20,000,000 loss per year in non-tax revenue to the general fund through 2027.

As aforementioned, the original maturity or repayment of the reimbursable G.O. bonds occurred in 2017. Therefore, while we have an outstanding agreement with the HTA for the repayment of the reimbursable G.O. bonds through 2027, the G.O. bonds issued to fund the CC have been fully repaid.

In addition, although B&F takes no position on the proposed allocation of TAT revenues in H.B. No. 2010, as a matter of general policy, the department does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to H.B. No. 2010, it is difficult to determine whether the two proposed special funds would be self-sustaining.

Thank you for your consideration of our comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Redistribute Funds

BILL NUMBER: HB 2010; SB 2901 (Identical)

INTRODUCED BY: HB by ONISHI, CACHOLA, CULLEN, CULLEN, EVANS, FUKUMOTO, ITO, LUKE, MORIKAWA, SAIKI; SB by WAKAI

EXECUTIVE SUMMARY: Forgives the debt owed to the State by the Hawaii Tourism Authority for the convention center construction costs and related interest. Reduces the transient accommodations tax revenue allocation to the convention center enterprise special fund. Establishes a convention center repair and maintenance special fund and a convention center emergency special fund and allocates a portion of the transient accommodations tax to those funds. Increases the minimum fund balance of the tourism emergency special fund.

SYNOPSIS: Cancels the debt owed to the State by the Hawaii Tourism Authority in connection with the issue of general obligation bonds under Act 7, SLH 1993.

Adds two new sections to chapter 201B, HRS, establishing the Convention Center Repair and Maintenance Special Fund and the Convention Center Emergency Special Fund.

Amends section 237D-6.5, HRS, to decrease the earmark from the TAT to the convention center enterprise special fund from \$26.5 million to \$16 million.

Also specifies that of the \$82 million allocated to the tourism special fund, monies will be allocated to maintain a certain balance in the tourism emergency special fund (NOT the same as the convention center emergency special fund that the bill creates):

- \$10,000,000 beginning July 1, 2018;
- \$15,000,000 beginning July 1, 2019;
- \$20,000,000 beginning July 1, 2020; and
- \$25,000,000 beginning July 1, 2021.

Provides for \$2 million a year to be allocated to the convention center repair and maintenance special fund, and for \$5 million a year to be allocated to the convention center emergency special fund

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: As with any earmarking of revenues, the legislature will be preapproving each of the initiatives fed by the tax earmark, so expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether too little or too much revenue has been diverted from other priorities in the state budget.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers would have to evaluate the real or actual needs of each program.

Digested 2/10/2018



Statement of
George D. Szigeti
Chief Executive Officer
Hawai'i Tourism Authority
on
HB2010
Relating to Tourism
House Committee on Finance
Tuesday, February 23, 2018
12:00pm
Conference Room 308

LATE

Chair Luke, Vice-Chair Cullen and Committee Members:

The Hawai'i Tourism Authority (HTA) **offers the following testimony in support of HB2010**, which proposes to remove the debt owed to the State by HTA relating to the convention center; establish a Convention Center Repair and Maintenance Fund and a Convention Center Emergency Special Fund; and increase the minimum balance of the Tourism Emergency Special Fund (TESF).

HTA supports the legislature's efforts to remove the Hawai'i Convention Center's bond debt owed to the State. The convention center remains a viable contributor to the State economy and has generated over \$8.7 billion in visitor spending since opening its doors. In calendar year 2017 the convention center turned a net operating profit of \$1.1 million, marking its second consecutive year of profitability.

Mahalo for the opportunity to testify.