

---

SENATE COMMITTEE ON WAYS AND MEANS  
The Honorable Donovan M. Dela Cruz, Chair  
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair

**S.B. NO. 2224, S.D. 1, RELATING TO TOURISM**

Hearing: Wednesday, February 21, 2018, 10:08 a.m.

---

The Office of the Auditor **has no position** regarding S.B. No. 2224, S.D. 1, which amends numerous provisions relating to or affecting the Hawai'i Tourism Authority (HTA). **However, we offer the following comments regarding Section 2 of the bill, specifically the amendments to section 201B-11(c), Hawai'i Revised Statutes (HRS), and the definition of "administrative expenses."**

We are currently auditing HTA and are in the process of drafting our report. Although we do not disseminate our audit findings outside of the audited agency until the report is released, we assessed HTA's compliance with the administrative expense limit of 3.5 percent of the Tourism Special Fund as one of the audit objectives. We likely will be recommending that the Legislature consider clarifying and defining the term "administrative expenses" as used in section 201B-11(c), HRS.

S.D. 1 would amend section 201B-11(c), Hawai'i Revised Statutes, to limit administrative expenses to \$2,800,000; however, the proposed draft does not provide any further clarity as to the specific expenses that are "administrative expenses." We suggest that the Committee consider amending the bill to clarify the expenses that are "administrative expenses."

Thank you for considering our testimony regarding S.B. No. 2224, S.D. 1.



# DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE  
GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**LUIS P. SALAVERIA**  
**Director**  
Department of Business, Economic Development, and Tourism  
before the

## **SENATE COMMITTEE ON WAYS AND MEANS**

Wednesday, February 21, 2018

10:08 a.m.

State Capitol, Conference Room 211

in consideration of  
**SB2224, SD1**  
**RELATING TO TOURISM.**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on SB2224, SD1, which would redistribute the transient accommodations tax (TAT) revenues from the Hawaii Tourism Authority (HTA) to different state agencies.

DBEDT's mission is to support Hawaii's economy, therefore DBEDT has strong concerns about the reduction of \$30.0 Million from HTA's visitor marketing funds.

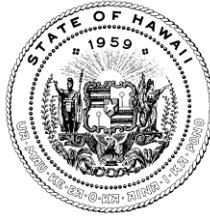
There is an untested assumption underlying this proposed redistribution of visitor marketing funds: that Hawaii's share of the global tourism expenditures will remain at the same level with less marketing dollars. If that proves to be wrong, many of Hawaii's small local businesses that rely on visitors may lose business.

The TAT has become an important source of revenue for the General Fund and programs, such as education, that depend on the General Fund for support. A number of bills are being considered that increase TAT revenues. The potential additional revenue will be jeopardized, if the number of visitors decreases with substantially less marketing dollars.

We appreciate the need for additional funds for maintenance of State parks, and the important needs of other departments, including DBEDT's other programs. However, this substantial reduction of the visitor marketing funds could have negative impacts on Hawaii's economy and the State budget.

Thank you for the opportunity to provide these comments.

DAVID Y. IGE  
GOVERNOR OF  
HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

**Testimony of  
SUZANNE D. CASE  
Chairperson**

**Before the Senate Committee on  
WAYS AND MEANS**

**Wednesday, February 21, 2018  
10:08 AM  
State Capitol, Conference Room 211**

**In consideration of  
SENATE BILL 2224, SENATE DRAFT 1  
RELATING TO TOURISM**

Senate Bill 2224, Senate Draft 1 proposes to: (1) Rename the Convention Center Enterprise Special Fund as the Convention Center Operations and Maintenance Special Fund; (2) Repeal the allocation of the Transient Accommodation Tax (TAT) revenues to that fund; (3) Amend the allowable uses of that fund; (4) Defines administrative expenses as used in Section 201B-11(c), Hawaii Revised Statutes (HRS), as office equipment, salaries, and supplies; and (5) Redistribute TAT revenue from the Hawaii Tourism Authority to different state agencies for certain purposes. **The Department of Land and Natural Resources' (Department) testimony is limited to the proposed paragraph (8) to Section 237D-6.5(b), HRS, in SECTION 3 of the measure. The Department supports this proposed amendment, provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental Budget request and offers the following amendment.**

The Department maintains strong support for measures that recognize the need to allocate revenue derived from the robust visitor industry toward offsetting associated impacts to natural and cultural resources and the divisions and programs that manage and must mitigate these impacts. This measure proposes a significant re-distribution of tourism derived revenue. The Department recommends the following amendment (in gray highlight) be made to paragraph (8) on page 8 of SECTION 3:

“(8) \$10,000,000 shall be allocated to the department of land and natural resources; provided that the funds allocated shall be expended to address the impact of tourism on the natural

**SUZANNE D. CASE**  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

**ROBERT K. MASUDA**  
FIRST DEPUTY

**JEFFREY T. PEARSON, P.E.**  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

resources of the State[.] including, but not limited to, enhancing public safety, state parks, enforcement, trail maintenance, and marine resources.”

The \$10,000,000 would be applied to further offset the direct impacts of the tourism industry on specific Department programs, divisions, resources and infrastructure that is increasing the need for enforcement, contracted lifeguards, parks management, trail maintenance, ocean recreation safety programs, and aquatic resources protection.

Thank you for the opportunity to comment on this significant measure.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

---

Testimony Presented Before the  
Senate Committee on Ways and Means  
February 21, 2018 at 10:08 a.m.

By  
Kalbert K. Young  
Vice President for Budget and Finance/CFO  
University of Hawai'i System

### SB 2224 SD1 – RELATING TO TOURISM

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee:

Thank you for the opportunity to submit testimony on SB 2224 SD1. This bill renames the convention center enterprise special fund as the convention center operations and maintenance special fund and repeals the allocation of TAT revenues to that fund, and amends the allowable uses of that fund. It also redistributes transient accommodations tax revenue from the Hawai'i Tourism Authority to different state agencies, including the University of Hawai'i.

The University of Hawai'i appreciates the bill authors' recognition that UH is a major contributor promoting Hawai'i in the areas of education, educational exchange, athletics, intellectual property, etc. While the University would appreciate and could use additional funding, we are also very cognizant about limited state funding resources for all agencies.

Thank you for the opportunity to testify on SB 2224 SD1.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

---

Testimony Presented Before the  
Senate Committee on Ways and Means  
Wednesday, February 21, 2018 at 10:08 a.m.

by  
David A. K. Matlin, Athletic Director  
University of Hawai'i at Mānoa  
And  
Patrick Guillen, Athletic Director  
University of Hawai'i at Hilo

SB 2224 SD1 – RELATING TO TOURISM

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee:

Thank you for the opportunity to submit testimony on SB 2224 SD1 on behalf of the University of Hawai'i at Hilo and University of Hawai'i at Mānoa athletics departments. Among other things, this bill appropriates moneys from the transient accommodations tax to help offset certain higher costs associated with the intercollegiate athletic programs at the University of Hawai'i at Mānoa and the University of Hawai'i at Hilo.

UH Mānoa and UH Hilo bring in teams to play before Hawai'i residents and competes on the mainland and occasionally internationally. Our students, coaches and staff serve as ambassadors of aloha and represent the state of Hawai'i with purpose and pride. As we share this responsibility, we also understanding that our programs are uniquely different.

Attached for your reference are additional information from the UH Mānoa and UH Hilo Athletics' Programs.

While the University would appreciate and could use additional funding, we are also very cognizant about limited state funding resources for all agencies. Thank you for your time and consideration of this testimony.



Office of Intercollegiate Athletics ● 1337 Lower Campus Road ● Honolulu, Hawai'i 96822-2370

Testimony Presented Before the  
Senate Committee on Ways and Means  
Wednesday, February 21, 2018 at 10:08 a.m.

by  
David A. K. Matlin, Athletic Director  
University of Hawai'i at Mānoa

## SB 2224 SD1 – RELATING TO TOURISM

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee:

Thank you for the opportunity to submit testimony on SB 2224 SD1. Among other things, this bill appropriates moneys from the transient accommodations tax to help offset certain higher costs associated with the intercollegiate athletic programs at the University of Hawai'i at Mānoa and the University of Hawai'i at Hilo.

In a state with no professional sports and as the only Division I collegiate athletics program in Hawai'i, University of Hawai'i at Mānoa athletics (UHM Athletics) brings in teams to play before Hawai'i residents and competes on the mainland or internationally as an ambassador of aloha and a representative of all of the people of Hawai'i. SB 2224 SD1, would help UHM Athletics to offset higher costs that are unique to Hawai'i that the peers it competes against do not have to address.

UHM Athletics completed an in-depth comprehensive assessment of its program that resulted in four main conclusions:

1. UHM Athletics is performing equal to or better than its peers both on-the-field and financially.
2. The financial model of expecting UHM Athletics to break-even is inconsistent with collegiate athletics nationwide where only 24 of 230 public universities operate in the black. Those 24 schools are members of the "Power Five" conferences such as the Pacific 12 or Southeastern (SEC) conferences which typically have media revenues of \$30.0 - \$40.0 million per school - - compared to the UHM Athletics' \$2.5 million of media revenues.
3. Collegiate athletic programs typically receive "external support" made up of three components: student fees, direct government support and institutional support. Compared to its peers, UHM Athletics receives one of the lowest levels of support in the nation at 33% of revenues. In comparison, the average for peers in the Big West Conference is 67% and in the Mountain West Conference 41%.

4. UHM Athletics has \$5.4 million of uniquely higher costs that our peers do not. Absent those higher costs, UHM Athletics would have finished 2015 with a budget surplus rather than a deficit.

SB 2224 SD1 would help to address the unique higher costs that UHM Athletics faces and level the playing field against its collegiate competitors. Based on standardized data reported to the NCAA, UHM Athletics' costs are uniquely higher than its peers in three main areas: 1) UHM Athletics faces \$1.9 million of higher travel subsidies and guarantees to bring teams to Hawai'i; 2) \$1.2 million of higher travel costs for our athletes to travel to the mainland to compete; and 3) higher academic student aid of \$2.3 million because of higher housing and other costs, greater number of team sports, and greater percentage of non-resident student athletes as compared to our peers.

The funding in SB 2224 SD1 would help UHM Athletics to represent the State of Hawai'i as well as to continue to provide opportunities for local athletes to compete at home at the collegiate level; provide residents with fan experiences over hundreds of events annually; and serve as a source of collective community pride as Hawai'i's Team.

In addition to the intangible benefits to the community and State, UHM Athletics also provides significant economic benefits to the State. A recent economic impact study released by the Shidler College of Business concluded that UHM Athletics results in:

- \$66 million of direct spending on labor, goods and services, that generated \$128 million of Hawai'i business sales
- \$36.9 million of income for Hawai'i workers
- \$7.0 million of increased State tax collections, and
- 860 jobs created

Furthermore, the study estimated that the athletic program resulted in over 20,000 visitors to Hawai'i who came for athletic events that spent over \$31 million locally. The study did not quantify the benefit to tourism from the valuable exposure Hawai'i receives when UHM Athletics events are played or televised outside Hawai'i, but that impact would also be significant.

While the University of Hawai'i at Mānoa believes it provides significant benefits to the community as well as economic benefits to the State, including in tourism; it does not take a position on the merits of the source of the funds being the transient accommodation taxes proposed in SB 2224 SD1. We will defer on the merits of the source of the funding, recognizing that the legislative process will allow for open dialogue on it and reasoned decision making after consideration of all positions offered.

While the University of Hawai'i at Mānoa would appreciate and could use additional funding, we are also very cognizant about limited state funding resources for all agencies.

Thank you for your time and consideration of this testimony.





Testimony Presented Before the  
Senate Committee of Ways and Means  
Wednesday, February 21, 2018 at 10:08 a.m.  
by  
Patrick Guillen, Athletic Director  
University of Hawai'i at Hilo

## SB 2224 SD1 – RELATING TO TOURISM

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee:

Thank you for the opportunity to submit testimony on SB 2224 SD1. Among other things, this bill appropriates moneys from the transient accommodations tax to help offset certain higher costs associated with the intercollegiate athletic programs at the University of Hawai'i at Hilo and the University of Hawai'i at Mānoa beginning fiscal year 2018-19.

UH Mānoa and UH Hilo brings in teams to play before Hawai'i residents and competes on the mainland and occasionally internationally. Our students, coaches and staff serve as ambassadors of aloha and represent the great state of Hawai'i with purpose and pride. SB 2224 SD1 would help UH Hilo Athletics to offset higher costs that are unique to Hawai'i that our peers do not have to face.

These unique challenges are:

1. **BUDGET:** The overall median athletics budget for NCAA Division II institutions is \$5.7M. UH Hilo budget currently is \$3.6M, which ranks us in the lowest fourth quartile nationally.
2. **TRAVEL EXPENSES:** 70% of our operational budget is allocated to travel-related costs. In comparison, our peers on the mainland appropriate approximately 20 - 25% of their budget towards travel-related expenses. In fact this expense increased this year by 10% due to BYU-Hawai'i dropping their intercollegiate athletics program.
3. **EXTERNAL SUPPORT:** UH Hilo is the only school in the PacWest Conference that does not presently have an "athletics student fee."
4. **RECRUITING COSTS:** It costs UH Hilo significantly more than our peers on the mainland to recruit student-athletes that can compete at the NCAA II level.



Office of Intercollegiate Athletics

200 W. Kāwili Street • Hilo, Hawai'i 96720-4091 • Phone: (808) 974-7520 • Fax: (808) 974-7711

<http://vulcans.uhh.hawaii.edu>

An Equal Opportunity/Affirmative Action Institution





SB 2224 SD1 would assist in addressing these unique costs, which in turn would make us more competitive across the board while at the same time improving the overall student experience. This additional funding will also bring immeasurable benefits to the Big Island community and Hilo in terms of being a collective source of community pride.

Despite these challenges, however, UH Hilo athletics continues to perform academically at higher rates than the general student population in terms of retention and graduation. This is a reflection on our programs commitment and efforts in identifying quality students that are also excellent athletes.

UH Hilo also provides significant economic benefits to the State and the Big Island. While the athletics department does not yet have a detailed Economic Impact Study for the entire year, Two recent studies were done by Dr. Tam VU of the UHH COBE on the economic impact of two collegiate events that were recently hosted by UHH. The PacWest Cross Country Championships and the Amer Ari Collegiate Golf Invitational showed a \$2.8M dollar short and long-term economic impact to the State of Hawai'i and the Big Island. This is based on just two events and not the year-long intercollegiate athletic events hosted at UH Hilo which so far this academic year has attracted teams from Washington, South Dakota, Utah, Arizona and California.

While the University of Hawai'i at Hilo believes it provides significant benefits to the community as well as to the State, including in tourism; it does not take a position on the merits of the source of the funds being from the transient accommodation taxes proposed in SB 2224 SD1.

While the University of Hawai'i at Hilo would appreciate and could use additional funding, we are also very cognizant about limited state funding resources for all agencies.

Thank you for your time and consideration of this testimony.



**Office of Intercollegiate Athletics**

200 W. Kāwili Street • Hilo, Hawai'i 96720-4091 • Phone: (808) 974-7520 • Fax: (808) 974-7711

<http://vulcans.uhh.hawaii.edu>

An Equal Opportunity/Affirmative Action Institution



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Redistribute Funds

BILL NUMBER: SB 2224, SD-1

INTRODUCED BY: Senate Committee on Economic Development, Tourism, and Technology

EXECUTIVE SUMMARY: Redistributes the money

SYNOPSIS: Amends section 201B-8, HRS, to rename the convention center enterprise special fund to the convention center operations and maintenance special fund.

Amends section 201B-11, HRS, to cap administrative expenses at \$2.8 million, with administrative expenses being defined as office equipment, salaries, and supplies; and to cap marketing expenses at \$49.2 million.

Amends section 237D-6.5, HRS, to add or delete earmarks on the TAT:

- Deletes \$26.5 million to the convention center enterprise special fund.
- Reduces the allocation to the tourism special fund from \$82 million to \$52 million.
- Adds an earmark of \$\_\_\_\_\_ to DBEDT for other economic development initiatives and programs.
- Adds an earmark of \$\_\_\_\_\_ to the department of education and University of Hawaii for career technical education programs for the tourism industry.
- Adds an earmark of \$\_\_\_\_\_ to University of Hawaii athletics for student athlete travel.
- Adds an earmark of \$\_\_\_\_\_ to DLNR to address the impact of tourism on the state's natural resources.
- Adds an earmark of \$\_\_\_\_\_ to the Department of Public Safety for unspecified purposes.
- Adds an earmark of \$\_\_\_\_\_ to the State Foundation on Culture and the Arts for the perpetuation of the Hawaiian culture.

Makes conforming amendments to correct cross-references.

Deletes references to repayment of the convention center debt.

EFFECTIVE DATE: July 1, 2018.

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.

The bill deletes provisions allowing for repayment of the convention center debt but leaves the debt intact. The Committee should consider a provision to cancel the debt, as is proposed in SB 2901 / HB 2010, because it makes little sense to earmark money that otherwise would go the general fund to pay off debt, where the third-party bonds are already paid off and the loan repayments would go to the general fund.

Digested 2/19/2018