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

SENATE COMMITTEES ON ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY
Wednesday, February 14, 2018
1:15 p.m.
State Capitol, Conference Room 414

in consideration of
SB2224, SD1
RELATING TO TOURISM.

Chair Wakai, Vice Chair Taniguchi, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) respectfully **opposes** 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.

We support additional funds for maintenance of State parks, and the important needs of other departments, including DBEDT's other programs. However, reduction of the visitor marketing funds could have negative impacts on Hawaii's economy. Market share lost may be very difficult to win back.

Thank you for the opportunity to provide these comments.

HAWAI'I TOURISM AUTHORITY

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David Y. Ige
Governor

George D. Szigeti
President and Chief Executive Officer

LATE

Statement of
George D. Szigeti
Chief Executive Officer
Hawai‘i Tourism Authority
on
SB2224 Proposed SD1
Relating to Tourism
Senate Committee on Economic Development, Tourism, and Technology
Wednesday, February 14, 2018
1:15 p.m.
Conference Room 414

Chair Wakai, Vice-Chair Taniguchi and Committee Members:

The Hawai‘i Tourism Authority (HTA) offers the following testimony in **opposition to SB2224 Proposed SD1**, which would reduce Transient Accommodations Tax (TAT) revenues to the Tourism Special Fund (TSF) by $30 million, rename and repurpose the Convention Center Enterprise Special Fund, repeal a number of earmarks within the TSF, and allocate an unspecified amount of TAT revenues to various State agencies and departments.

Reducing the TSF would prevent HTA from fulfilling its statutory duties and responsibilities as outlined in HRS Chapter 201B. In 1998, the Legislature created and designed HTA to operate as a State agency within the tourism industry to market Hawai‘i as a visitor destination. That remains HTA’s mandate. Over the past five years, TAT collections grew from $395.2 million in FY2014 to $508.38 million in FY2017. After existing TAT allocations were made in 2017, $292.4 million of TAT revenues were returned to the State’s general fund. If the TSF is reduced, HTA will not be able to fulfill its responsibilities to the State.

Preventing HTA from fulfilling its statutory mandate will harm the State. Every dollar allocated to HTA through the TSF, whether spent marketing Hawai‘i as a destination or spent in our communities supporting important programs that benefit residents and visitors, benefits the State’s economy. A direct relationship exists between the number of visitors booking nights in transient accommodations and TAT revenues, which are generated by nights spent in transient accommodations. Last year, Hawai‘i’s visitor industry supported 204,000 jobs and brought $1.96 billion in tax revenue. Those gains were made in large part because Hawai‘i has invested in its brand. Diverting funds from the TSF would prevent the same level of investment in the brand, keep the targeted dollars out of communities and programs, and ultimately harm our State’s visitor market.

HTA supports apportioning additional monies to various State departments and agencies from TAT revenues. We agree that additional funds should be allocated to address visitor impacts on our State’s infrastructure, natural resources, safety and security and workforce development. We believe it is critical to maintain the tourism special fund at its current level so that we can continue to support TAT collections to fund other important state initiatives. Using a fraction of the increased TAT revenues to address visitor impacts ensures not only that our State is cared for, but also that its primary economic driver remains intact.

Mahalo for the opportunity to offer this testimony.

STATE OF HAWAIʻI
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LATE

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,
TOURISM, AND TECHNOLOGY
The Honorable Glenn Wakai, Chair
The Honorable Brian T. Taniguchi, Vice Chair

S.B. NO. 2224 (PROPOSED SD 1), RELATING TO TOURISM

Hearing: Wednesday, February 14, 2018, 1:15 p.m.

The Office of the Auditor **has no position** regarding S.B. No. 2224 (Proposed SD 1), which amends numerous provisions relating to or affecting the Hawaiʻi Tourism Authority (HTA). **However, we offer the following comments regarding Section 2 of the Proposed SD1, specifically the proposed amendment to section 201B-11(c)(1), Hawaiʻi Revised Statutes.**

We are currently auditing HTA and are in the process 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)(1), Hawaiʻi Revised Statutes.

The Proposed SD 1 would amend section 201B-11(c)(1), Hawaiʻi 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 Proposed SD 1 to clarify the expenses that are "administrative expenses."

Thank you for considering our testimony regarding S.B. No. 2224 (Proposed SD 1).

DAVID Y. IGE
GOVERNOR

LATE

LAUREL A. JOHNSTON
ACTING DIRECTOR

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FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY LAUREL A. JOHNSTON
ACTING DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM AND TECHNOLOGY
ON
SENATE BILL NO. 2224, PROPOSED S.D. 1

February 14, 2018
1:15 p.m
Room 414

RELATING TO TOURISM

Senate Bill No. 2224 renames the Convention Center Enterprise Special Fund to the Convention Center Operations and Maintenance Special Fund (CCOMSF); repeals the allocation of Transient Accommodations Tax (TAT) revenues to the CCOMSF; amends the allowable uses of the CCOMSF; and redistributes TAT revenues from the Hawaii Tourism Authority (HTA) to different State agencies for certain purposes.

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 Convention Center (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. While the measure does not specifically indicate that the State will be forgiving the debt owed by the HTA to the State, removing authority to use moneys in the CCOMSF for the payment of debt owed by HTA to B&F relating to the CC will result in a $20,000,000 loss per year in non-tax revenue to the general fund through 2027.

In addition, the department has concerns with any measure that statutorily earmarks general funds for specific purposes as this funding amount cannot be adjusted to respond to economic downturns, will have a negative impact on the general fund, and will jeopardize the Administration’s and Legislature’s ability to fund other priority programs and services that compete for a limited amount of general funds through the budgeting and appropriation process.

Thank you for your consideration of our comments.