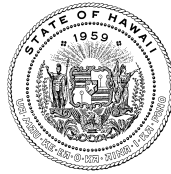


DAVID Y. IGE
GOVERNOR



LAUREL A. JOHNSTON
DIRECTOR

KEN N. KITAMURA
ACTING 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
SENTE BILL NO. 2504, S.D. 2, H.D. 1

LATE

**March 28, 2018
3:00 p.m.
Room 308**

RELATING TO THE HAWAII TOURISM AUTHORITY

Senate Bill (S.B.) No. 2504, S.D. 2, H.D. 1: cancels the debt owed to the State by the Hawaii Tourism Authority (HTA) for the Convention Center (CC) construction costs and related interest; changes the current \$26,500,000 Transient Accommodations Tax (TAT) revenue allocation to the CC Enterprise Special Fund to an unspecified amount; establishes the CC Repair and Maintenance Special Fund (CCRMSF) and allocates an unspecified amount 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 an unspecified amount of TAT revenues in each year for FY 19 through FY 22 into the CCESF; and changes the minimum fund balance of the Tourism Emergency Special Fund to unspecified amounts in FY 19 through FY 22.

The Department of Budget and Finance (B&F) offers the following comments on this measure. First, 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 HTA debt owed to the State will be revenue neutral to the general fund should HTA retain \$6,500,000 in TAT revenues from its current \$26,500,000 allocation with the \$20,000,000 being directed into the general fund. However, if the \$20,000,000 is allocated away from the general fund, 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.

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 original G.O. bonds issued to fund the CC have been fully repaid.

Second, although B&F takes no position on the proposed allocation of TAT revenues in S.B. No. 2504, S.D. 2, H.D. 1, 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 S.B. No. 2504, S.D. 2, H.D. 1, it is difficult to determine whether the two proposed special funds would be self-sustaining.

Finally, the need for the CCESF is questionable as the Governor already has statutory authorization to suspend any law which impedes or tends to impede or is detrimental to the expeditious and efficient execution of, or to conflict with, emergency functions.

Thank you for your consideration of our comments.



Statement of
George D. Szigeti
Chief Executive Officer
Hawaii Tourism Authority
on
SB2504 SD2 HD1
Relating to Hawaii Tourism Authority
House Committee on Finance
Wednesday, March 28, 2018
3:00 p.m.
Conference Room 308

LATE

Chair Luke, Vice-Chair Cullen and Committee Members:

The Hawaii Tourism Authority (HTA) offers the following **testimony in support** of SB2504 SD2 HD1, 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 Hawaii 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 offer this testimony.