

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
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)

**TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1946, H.D. 1**

**February 19, 2020
4:00 p.m.
Room 308**

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

The Department of Budget and Finance (B&F) opposes House Bill (H.B.) No. 1946, H.D. 1.

H.B. No. 1946, H.D. 1, amends: 1) the amount of Transient Accommodations Tax (TAT) revenues allocated to the counties from a specified sum to an undetermined capped amount of reimbursements to each county for expenditures related to certain county public services; 2) requires the Director of Finance to certify the amounts for reimbursement, create the necessary forms to claim the reimbursement and adopt rules necessary to effectuate the purpose of this measure; 3) requires each county to submit claims for reimbursement within 90 days after the expenditure of county funds or waive the right to claim for reimbursement; and 4) appropriates an unspecified amount of general funds to B&F for FY 21 for costs and expenses, including necessary staffing, to effectuate this measure.

Each county may claim reimbursements for the following: 1) enforcing county ordinances relating to transient accommodations; 2) establishing, operating, and

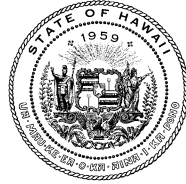
maintaining public mass transportation; 3) providing grants for county cesspool conversion programs affecting natural resources; 4) establishing, implementing, and updating, in coordination with the Hawai'i Tourism Authority, county visitor industry strategic plans and priorities; and 5) providing ocean safety programs, including infrastructure and equipment, such as lifeguard towers, swim buoys, video cameras, staffing and operating costs, and education and visitor awareness.

B&F opposes this measure as it may be more prudent to conduct a study of each county's expenditures on the aforementioned items to determine if current TAT allocations need to be adjusted accordingly. We would also like to note that Act 1, SpSLH 2017, appropriated \$400,000 in general funds for FY 18 for the Department of Accounting and General Services to establish 3.00 full-time exempt positions to assist in verifying the Honolulu Authority for Rapid Transportation expenditures.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: **H.B. 1946, H.D. 1, Relating to the Transient Accommodations Tax**

Date: Wednesday, February 19, 2020

Time: 4:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) offers the following comments on H.B. 1946, H.D. 1. This measure amends the allocation of transient accommodations tax (TAT) revenue to the counties under section 237D-6.5(b)(4), Hawaii Revised Statutes. H.B. 1946, H.D. 1, has a defective effective date of July 1, 2099.

Under this measure, the allocation of TAT revenues to the counties is amended to a reimbursement system, whereby each county shall apply for reimbursement of certain costs within 90 days after the expenditure of county funds to the State Director of Finance. The Department is responsible for reporting the collection and distribution of TAT revenues. The Department will work with the Department of Budget and Finance in obtaining the TAT revenues approved to reimburse the counties on a monthly basis to be included in its Statement of Tax Operations report.

The allocation of TAT revenues is done on a fiscal year basis. If a functional effective date is to be inserted, and to ensure a smooth transition to the new allocation method, the Department suggests the measure be made effective on July 1, 2020.

Thank you for the opportunity to provide comments on this measure.

Harry Kim
Mayor



Roy Takemoto
Managing Director

Barbara J. Kossow
Deputy Managing Director

County of Hawai'i Office of the Mayor

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KONA: 74-5044 Ane Keohokālole Hwy., Bldg C • Kailua-Kona, Hawai'i 96740
(808) 323-4444 • Fax (808) 323-4440

February 18, 2020

Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair
Committee on Finance

Dear Chair Luke, Vice Chair Cullen, and Committee Members:

RE: HB 1946, HD1 Relating to the Transient Accommodations Tax

HB 1946, HD1 would delete \$103M in TAT revenue that currently is earmarked for the four counties and replace it with an unspecified cap for each county. Whether any county would receive the full amount, or something less than the new cap, would depend on that county's ability to convince the Director of Finance that the county had made expenditures in five specified categories. Each time the Finance Director changed, we could anticipate that the level of scrutiny would vary.

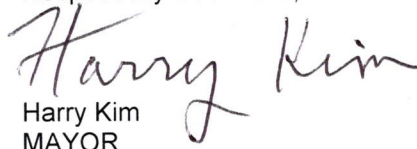
The State and the counties ought to deal with each other as respectful partners, all of whom are striving to achieve what is in the best interests of the people they serve.

As to the specifics of HB 1946, HD1, I share with you the following:

- Some of the five reimbursable areas really do not have a direct nexus to the visitor industry that is paying this tax, namely cesspool conversion and public mass transit. You could argue mass transit would get rental cars off the road, but the reality is we have mass transit and it is primarily used by our local residents. Additionally, we have GET to help pay for this expense. Cesspool conversion falls under the Department of Health (State). Tasking us to take care of that problem while restricting the uses of the TAT is simply not fair.
- The counties continue to have financial burdens with the ever increasing ERS rates, which on July 1, 2020 will be 24% for General Employees and 41% for Police and Fire.
- Our TAT amount has remained relatively flat for the last 10 years. We have already had to find other ways to balance our budget – which includes significant amounts to promote tourism and pay for services enjoyed by our visitors.
- Cesspool conversion – we would need billions of dollars to convert all the cesspools on our island. We can use the entire TAT revenue from the State and it still would not be enough to convert the cesspools.
- It would be a terrible waste of time and manpower to bill for things that the money is already going towards.

We need to work together for the common good. We would like to see more TAT money flow to the counties. We do not support HB 1946, HD1.

Respectfully Submitted,


Harry Kim
MAYOR



DEPARTMENT OF FINANCE
THE COUNTY OF KAUA'I

DEREK S. K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR

REIKO MATSUYAMA
DIRECTOR

MICHELLE L. LIZAMA
DEPUTY DIRECTOR

Testimony of Reiko Matsuyama
Director of Finance, County of Kauai

Before the
House Committee on Finance
February 19, 2020; 4:00 pm
Conference Room 308

In consideration of
House Bill 1946 HD1
Relating to the Transient Accommodations Tax

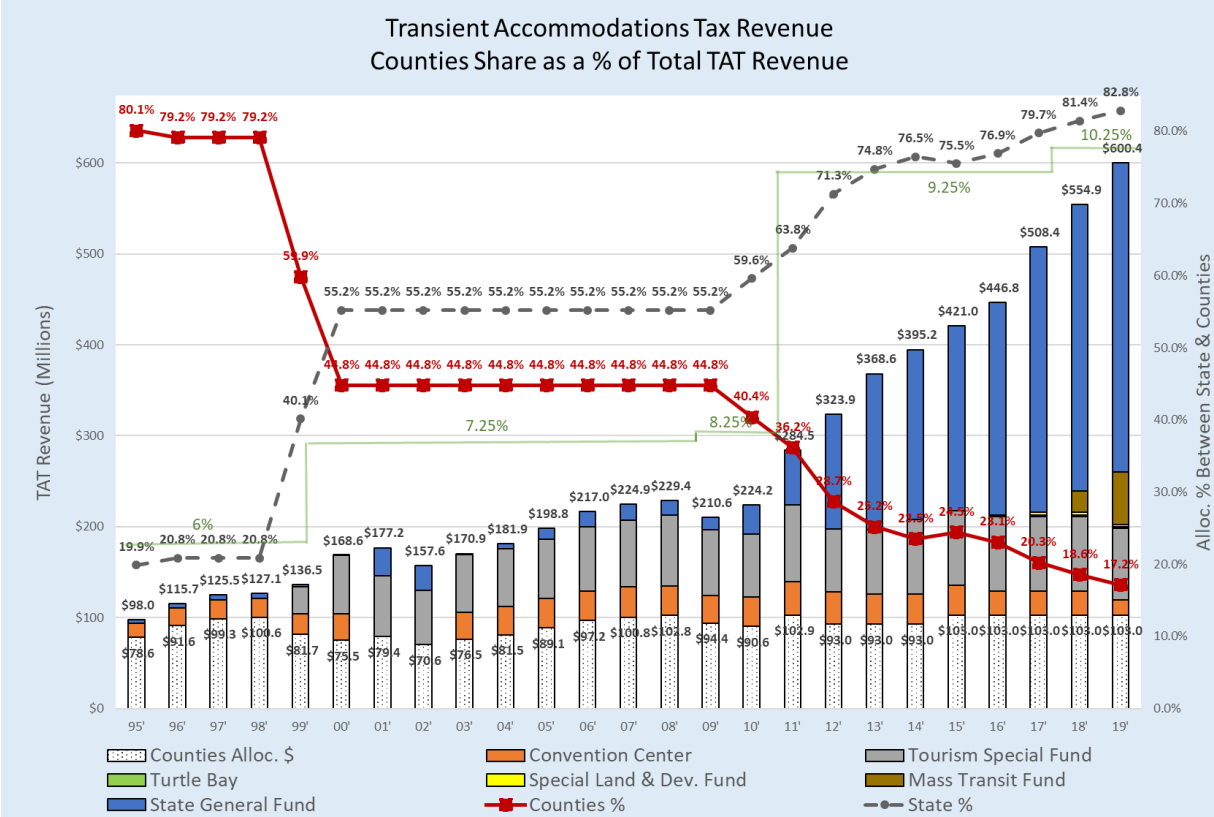
Honorable Chair Luke, Vice Chair Cullen, and Members of the Committee:

The County of Kaua'i **opposes** HB 1946 HD1 which proposes to amend the amount of transient accommodations tax revenues allocated to the counties from a specified sum to capped reimbursements for expenditures related to specified county public services.

HB 1946 HD1 provides a specific list of expenditures for which the counties may seek reimbursement of TAT revenue, up to as of yet an undetermined maximum. With the amount still uncertain, it is difficult to establish revenue estimates for budgeting purposes. Being that this is drafted as a reimbursement, the administrative costs to submit for the money will be a burden. Finally, it would seem unreasonable to place such a narrow focus on claim reimbursements as outlined in HB 1946 HD1. It provides very little consideration for the broader impacts of visitors like our park maintenance and landfill capacity. Further, the County of Kauai passed the one-half percent General Excise Tax surcharge to help address "operating or capital costs of public transportation", so this specific reimbursement would appear duplicative. It would appear this bill is yet another attempt to further diminish the counties share of TAT revenue.

As reflected in the table below, the Counties share of TAT revenue has been declining since FY'09 (see red line) from 44.8% of total TAT to only 17.2% in FY'19. Meanwhile, total TAT revenue generated in the state has grown to over \$600 million. The State's share of TAT has grown exponentially (see blue portion of columns and gray line) to 82.8% of total TAT in FY'19.





It is for these reasons, that we must **oppose** HB 1946 HD1. Thank you for your consideration of this testimony.

Sincerely,

Reiko Matsuyama
Finance Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMODATIONS, Mode of Allocation to Counties

BILL NUMBER: HB 1946

INTRODUCED BY: House Committee on Tourism & International Affairs

EXECUTIVE SUMMARY: Amends the amount of transient accommodations tax revenues allocated to the counties from a specified sum to capped reimbursements to the county for expenditures related to specified county public services.

SYNOPSIS: Amends section 237D-6.5(b)(4), HRS, to change the method of revenue sharing with the counties. Instead of receiving fixed dollar amounts as they do now, the counties would be allowed to submit claims for reimbursement of costs for public services, up to a (now unspecified) fixed dollar amount. To receive the reimbursement, a county shall apply for the reimbursement within ninety days after the expenditure of county funds; provided that failure to comply with this provision shall constitute a waiver of the right to claim a reimbursement. The director of finance shall prepare forms as may be necessary to claim the reimbursement. The director of finance may require a county to furnish information to ascertain the validity of the claim for reimbursement under this paragraph and may adopt necessary rules.

EFFECTIVE DATE: July 1, 2099.

STAFF COMMENTS: Act 161, SLH 2013, changed the allocations of TAT to the counties from a percentage basis to a specific dollar amount. Currently, TAT revenues are allocated as follows: (1) \$1.5 million goes to the Turtle Bay conservation easement special fund; (2) \$16.5 million is deposited into the convention center enterprise special fund; (3) \$79 million goes to the tourism special fund; (4) \$103 million is transferred to the various counties; and (5) \$3 million is allocated to the special land and development fund. Any remaining revenues then go to the general fund.

This measure presumably would increase the siphon of TAT revenues to the counties, as the counties would be allowed to submit reimbursement claims based on vague criteria. It would perpetuate the earmarking of TAT revenues. Most of us understand that support of the counties is a worthy goal. But does that justify grabbing a nine-digit pot of TAT money without going through the normal budgeting process that also considers sweltering primary schools, underfunded state pensions, or homelessness?

Rather than the continual earmarking of TAT revenues, a direct appropriation of general funds would be preferable. Earmarking the TAT revenues for a particular purpose decreases transparency and accountability.

This proposal indicates that county governments have grown well beyond their means and are desperately searching for more available revenue. The counties have justified their share of the

TAT by rationalizing that the funds go to pay for the impact visitors have on county facilities and services; however, at the same time all four counties have managed to impose much higher tax rates on hotel/resort real property and in one case a special rate on resort time share property.

The search for more and higher taxes must stop somewhere. Both levels of government need to resize their operations and set priorities for what limited resources taxpayers can share with government.

Digested 2/16/2020



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
WEDNESDAY, FEBRUARY 19, 2020 AT 4:00 P.M.**

To The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair; and
Members of the Committee on Finance,

**TESTIMONY IN OPPOSITION TO HB1946 RELATING TO
THE TRANSIENT ACCOMMODATIONS TAX**

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our opposition to HB1946.

We believe each county is entitled to their fair share of the TAT and feel they should be getting more than is currently allocated. It should be up to each county to use those funds received as they see fit for priorities instead of having a mandate with reimbursements and limiting the reimbursements to unspecified and unknown amounts.

Therefore, we oppose this bill and ask that it be deferred.

We appreciate the opportunity to testify on this matter.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

Testimony of the
Hawaii State Association of Counties
on
H.B. No. 1946, H.D.1
Relating to Relating to the Transient Accommodations Tax
Committee on Finance
Wednesday, February 19, 2020, 4:00 p.m.
Room 308

The Hawaii State Association of Counties (HSAC) opposes H.B. No. 1946, H.D. 1, which proposes to limit the distribution of transient accommodations tax (TAT) revenues to the counties to specific amounts to be designated as reimbursement for the provision of specified public services that include:

- Enforcement of ordinances relating to transient accommodations;
- Establishment, operation, and maintenance of public mass transportation;
- Grants for county cesspool conversion programs affecting natural resources;
- Establishing, implementing, and updating county visitor industry strategic plans and priorities, in coordination with the HTA; and
- Providing ocean safety programs.

H.B. No. 1946, H.D.1, further restricts the use of the TAT funds by requiring that the counties apply for the reimbursement within 90 days of the expenditure of county funds, ***failure of which is considered a waiver of the right to claim the reimbursement.***

In 1986, the intent of the Legislature in enacting the transient accommodations tax was that "...a portion of such revenues be appropriated for the promotion, stimulation and development of visitor assistance programs which may include, but are not limited to, the development of a convention center, the Hawaii Visitors Bureau for increased promotion of the visitor industry, and ***grants to the counties for the construction of recreational and other infrastructure to enhance visitor satisfaction.***" (House Journal 1986; Conference Committee Report No. 70-86)

In 1990, the Legislature enacted Act 185 and further clarified that legislative intent in distributing the TAT revenues was to provide a more equitable method of sharing state revenues with the counties, in lieu of grants-in-aid. The Legislature noted that "...many of the burdens imposed by tourism fall on the counties." The Legislature noted that increased pressures of the visitor industry meant greater demands on ***county services, such as "...providing, maintaining, and upgrading police and fire protection, parks, beaches, water, roads, sewage systems, and other tourism related infrastructure.***" (House Journal 1990; Conference Committee Report No. 207)

With the visitor count exceeding 10 million, the strain of county resources and services are even greater. By limiting the TAT revenues allocated to the counties and restricting the use of the funds to five uses, H.B. No. 1946, H.D. 1 will severely restrict the counties' ability to address the impact of the visitor industry on county services.

Thank you for the opportunity to submit testimony in opposition to H.B. No. 1946,
H.D.1.

COUNTY COUNCIL

Arryl Kaneshiro, Chair
Ross Kagawa, Vice Chair
Arthur Brun
Mason K. Chock
Felicia Cowden
Luke A. Evslin
KipuKai Kualii



OFFICE OF THE COUNTY CLERK

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

Telephone: (808) 241-4188
Facsimile: (808) 241-6349
E-mail: cokcouncil@kauai.gov

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

February 18, 2020

**TESTIMONY OF ROSS KAGAWA
VICE CHAIR, KAUAI COUNTY COUNCIL
ON**

HB 1946, HD1, RELATING TO TRANSIENT ACCOMMODATIONS TAX

House Committee on Finance
Wednesday, February 19, 2020

4:00 p.m.

Conference Room 308

Dear Chair Luke and Members of the Committee:

Thank you for this opportunity to provide testimony in **opposition** to HB 1946, HD1, Relating to Transient Accommodations Tax. My testimony is submitted in my individual capacity as Vice Chair of the Kaua'i County Council and as Vice President of the Hawai'i State Association of Counties (HSAC).

HB 1946, HD1, proposes to limit the distribution of transient accommodations tax (TAT) revenues to the counties to specific amounts to be designated as reimbursement for the provision of specified public services that include:

- Enforcement of ordinances relating to transient accommodations;
- Establishment, operation, and maintenance of public mass transportation;
- Grants for county cesspool conversion programs affecting natural resources;
- Establishing, implementing, and updating county visitor industry strategic plans and priorities, in coordination with the HTA; and
- Providing ocean safety programs.

HB 1946, HD1, further restricts the use of the TAT funds by requiring that the counties apply for the reimbursement within ninety (90) days of the expenditure of county funds, failure of which is considered a waiver of the right to claim the reimbursement.

House Committee on Finance

Re: HB 1946, HD1, Relating to Transient Accommodations Tax

February 18, 2020

Page 2

In 1986, the intent of the Legislature in enacting the transient accommodations tax was that "...a portion of such revenues be appropriated for the promotion, stimulation, and development of visitor assistance programs which may include, but are not limited to, the development of a convention center, the Hawai'i Visitors Bureau for increased promotion of the visitor industry, and grants to the counties for the construction of recreational and other infrastructure to enhance visitor satisfaction." (House Journal 1986; Conference Committee Report No. 70-86)

In 1990, the Legislature enacted Act 185 and further clarified that legislative intent in distributing the TAT revenues was to provide a more equitable method of sharing state revenues with the counties, in lieu of grants-in-aid. The Legislature noted that "...many of the burdens imposed by tourism fall on the counties." The Legislature noted that increased pressures of the visitor industry meant greater demands on county services, such as "...providing, maintaining, and upgrading police and fire protection, parks, beaches, water, roads, sewage systems, and other tourism related infrastructure." (House Journal 1990; Conference Committee Report No. 207)

With the visitor count exceeding 10 million, the strain of County resources and services are even greater. By limiting the TAT revenues allocated to the counties and restricting the use of the funds to five uses, HB 1946, HD1, will severely restrict the counties' ability to address the impact of the visitor industry on county services.

Thank you again for this opportunity to provide testimony in opposition to HB 1946, HD1. Should you have any questions, please feel free to contact me or Council Services Staff at (808) 241-4188.

Sincerely,

A handwritten signature in black ink, appearing to read 'R/K', with a long horizontal stroke extending to the right.

ROSS KAGAWA

Council Vice Chair, Kaua'i County Council

AMK:mn

HB-1946-HD-1

Submitted on: 2/18/2020 2:41:04 PM

Testimony for FIN on 2/19/2020 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Aida Kawamura	Individual	Oppose	No

Comments:

I am opposed to HB 1946. I have major concerns regarding the proposed changes to TAT distributions. I would rather keep our current arraignment than subject ourselves to a reimbursement system. I am not clear how this reimbursement system will benefit the Counties or the State. It seems implementation of this system will be more difficult and time consuming than what it is worth for both the State and Counties. I foresee a significant amount of time spent arguing about reimbursable items. The reimbursable items also do not account for the additional time and cost involved maintaining County Beach Parks due to increased visitors or costs involved with visitor rescues on State land. The reimbursement adds an undue step to the Counties and will certainly require additional time and resources at the State to verify and process payments. Although the bill specifies a 90 day reimbursement period for the County it does not specify when the State needs to issue payment back for the reimbursement.

LATE

HB-1946-HD-1

Submitted on: 2/19/2020 1:04:41 PM

Testimony for FIN on 2/19/2020 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Trinette Furtado	Individual	Oppose	No

Comments:

Aloha Mai and Mahalo for the opportunity to testify on HB1946 HD1.

I **STRONGLY OPPOSE** passage of this measure as each county's TAT should be returned to that respective county without "applying" for reimbursement from a select list of allowable expenditures determined by the state. There's is no clear justification for this amendment to allow the director of Finance to determine the amounts each county will receive of THEIR OWN TAT contributions.

As tourism continues to grow and counties are asked to become more responsible for the infrastructure, services and personnel to accomodate their visits, the counties need this funding to maintain and create further infrsatructure and services.

There are many other reasons this amended bill should NOT pass your committee with an affirmative majority vote, but I am unable to list them here in the time constraints for submitting online testimony for the hearing.

I ask you to seriously consider the unintended consequences of this measure should it become law. I urge you to **vote NO on HB1946 HD1**.