

TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
HOUSE BILL NO. 716, H.D. 2, S.D. 1

March 31, 2015

RELATING TO INNOVATIVE BUSINESS INTERACTION

House Bill No. 716, H.D. 2, S.D. 1, establishes an Innovative Business Interaction Program under the Department of Business, Economic Development and Tourism, with assistance from the Hawaii Tourism Authority. The bill also increases the Transient Accommodations Tax revenues deposited into the Tourism Special Fund by \$500,000 to be used to fund the Innovative Business Interaction Program.

The Department of Budget and Finance is concerned that this measure would divert \$500,000 per year from the general fund. This diversion is not accounted for in the Administration's general fund financial plan.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of  
**LUIS P. SALAVERIA**  
**Director**

Department of Business, Economic Development, and Tourism

Before the

**SENATE COMMITTEE ON WAYS AND MEANS**

Tuesday, March 31, 2015

9:00 A.M.

State Capitol, Conference Room 211

In consideration of

HB 716, HD2, SD1

**RELATING TO INNOVATIVE BUSINESS INTERACTION**

Chair Tokuda, Vice Chair Kouchi and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) supports this bill which seeks to establish an innovative business interaction program for investors and innovative talent, bringing international attention to Hawaii as a hub for Innovation and Creative Industries. We defer to HTA on the proposed means of financing this program.

DBEDT appreciates the amendments in SD1 in Section 2 made by the Senate Tourism and Economic Development Committees to reflect the broader definition and scope of events in order to fully capitalize on all aspects of the innovation ecosystem.

DBEDT's Creative Industries Division (CID), Business Development and Support Divisions (BDSB) and Hawaii Strategic Development Corporation (HSDC), and High Technology Development Corporation (HTDC) have the expertise to capitalize on existing and newly developed innovation initiatives to bring the community together to create, manage and launch such an effort for our State.

This past year, DBEDT has held strategic discussions with industry to build a strong foundation for the creation of Hawaii's own South By Southwest (SXSW), resulting in the convergence of the Hawaii's innovation economy sectors of Technology, Energy, Creative Media, Film, Music, Design and Fashion clustered during the Fall timeframe.

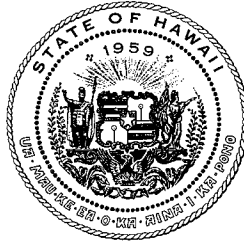
DBEDT's Creative Lab and HI Growth Initiative together with Blue Startups' East Meets West Conference (EMW), Hawaii International Film Festival (HIFF), Hawaii Academy of Recording Arts (HARA), Honolulu Fashion Week/Month, and GVS Transmedia Accelerator's Showcase have planted the seeds of a business interaction program. Harnessing the collective power of these programs, coupled with other events during the fall timeframe including the

Honolulu Biennial, Pacific Islanders in Communications' (PIC) Hawaiian Media Makers Conference, an effective program has the potential to grow to a world-class destination event.

DBEDT recommends that any innovation and innovative interaction events must also consider events on the neighbor islands. Events such as the GVS Transmedia Accelerator Showcase on the Big Island have also demonstrated that there are opportunities to further integrate and develop related events on the neighbor islands during this timeframe. The events can be linked via broadband to establish a collaborative hub throughout the State. In addition, music industry related initiatives in the Spring such as Mele Mai, the Hoku Awards and other efforts lead by our Hawaii Academy of Recording Arts (HARA) have the potential for a similar effort supporting both tourism and business development for our State.

DBEDT welcomes the opportunity to work with the Legislature, business and investment community and tourism sectors to establish the framework, messaging and marketing to attract global interest and showcase Hawaii as an innovation and creative business hub of the Pacific.

Thank you for the opportunity to testify on this measure.



**TESTIMONY OF SIMEON R. ACOBA, CHAIR,  
STATE-COUNTY FUNCTIONS WORKING GROUP, ON  
HOUSE BILL NO. 716, HOUSE DRAFT 2, SENATE DRAFT 1,  
RELATING TO INNOVATIVE BUSINESS INTERACTIONS**

**(written testimony only)**

**Senate Committee on Ways and Means  
March 31, 2015**

Chair Tokuda and Members of the Committee:

I am Simeon R. Acoba, Chair of the State-County Functions Working Group. Thank you for the opportunity to comment on House Bill No. 716, House Draft 2, Senate Draft 1, relating to innovative business interactions. This measure would, among other purposes, amend the amount of transient accommodations tax (TAT) revenues allocated to the counties from a specified sum to a percentage of the revenues allocated.

The Working Group was created by Act 174 (SLH 2014) and administratively placed within the Office of the Auditor. The Working Group, which first convened in October 2014, is comprised of 13 members appointed by the Governor, the Senate President, the Speaker of the House of Representatives, each of the county mayors, and the Chief Justice. The group is assigned the following responsibilities:

- 1) Evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and
- 2) Submit a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

Act 174 requires the Working Group to submit two reports: 1) an Interim Report, which was delivered to the Legislature, Governor, and each of the county mayors, on December 18, 2014; and 2) a Final Report with its findings and recommendations to the same parties 20 days prior to the convening of the 2016 Regular Session.

The Working Group will continue its work through 2015 and shall cease to exist upon the adjournment sine die of the 2016 Regular Session. We note that any TAT legislation passed this year may affect the on-going work of the Working Group. Accordingly, while we take no position on the merits of this bill, we respectfully request your consideration of deferring decisions on TAT legislation introduced this year to the 2<sup>nd</sup> year of the 28<sup>th</sup> State Legislature to enable the the Working Group to complete its work. As required by Act 174, the Working Group will report its findings and make recommendations prior to the 2016 Regular Session.

Thank you for the opportunity to offer comments on House Bill No. 716, House Draft 2, Senate Draft 1.



Written Statement of

KARL FOOKS  
President  
Hawaii Strategic Development Corporation

Before the  
**COMMITTEE ON WAYS AND MEANS**

**March 31, 2015**  
**9:00 AM**  
**State Capitol, Conference Room 211**

In consideration of  
**HB 716 HD2 SD1 RELATING TO INNOVATIVE BUSINESS INTERACTION.**

Chair Tokuda, Vice Chair Kouchi and Members of the Committee on Ways and Means:

The Hawaii Strategic Development Corporation respectfully submits testimony in support of HB716 HD2 SD1, legislation that establishes an innovative business interaction program for investors and innovative talent.

This legislation aligns with the HI Growth Initiative's efforts to develop local entrepreneurial talent in high growth sectors and connect and network them with investment capital to grow and scale profitable businesses in Hawaii.

However, in order for the proposed program to take root and have an economic impact in Hawaii, Hawaii businesses and Hawaii-based investors must be important contributors and participants of any events organized through the program. Continued support of the innovation ecosystem, through efforts like the HI Growth Initiative, is needed to create a critical mass of Hawaii innovative businesses and to attract investors to Hawaii.

Thank you for the opportunity to provide testimony.

# TAX FOUNDATION OF HAWAII

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**SUBJECT:** TRANSIENT ACCOMMODATIONS, Disposition for innovative business interaction program

**BILL NUMBER:** HB 716, SD-1

**INTRODUCED BY:** Senate Committees on Tourism and International Affairs and Economic Development and Technology

**EXECUTIVE SUMMARY:** This bill adjusts earmarks on the transient accommodations tax (TAT) that feed various special funds. Earmarks decrease transparency and accountability of government operations and should be avoided.

**BRIEF SUMMARY:** Amends HRS section 237D-6.5(b)(2) to increase the amount of transient accommodations tax allocated to the tourism special fund from \$82,000,000 to \$82,500,000; provides that \$500,000 shall be allocated for the innovative business interaction program.

Appropriates \$\_\_\_\_\_ out of the tourism special fund in fiscal 2016 to the innovative business interaction program.

Adds a new section to HRS chapter 201B to establish an innovative business interaction program for investors and talent.

**EFFECTIVE DATE:** February 19, 2025

**STAFF COMMENTS:** Currently, TAT revenues are allocated as follows: (1) \$26.5 million is deposited into the convention center enterprise special fund; (2) \$82 million is deposited into the tourism special fund; (3) \$103 million is transferred to the various counties; (4) \$3 million is for debt service of the Turtle Bay conservation easement; and (5) any remaining revenues deposited into the general fund of which \$3 million is allocated in accordance with the Hawaii tourism authority strategic plan. The proposed measure would increase the amount of TAT revenues allocated to the tourism special fund by \$500,000 and then allocate the same amount to the innovative business interaction program to increase the interaction of business investors and talent.

The proposed measure would add another siphon of TAT revenues, and would perpetuate the earmarking of TAT revenues for activities other than tourism. If there are insufficient funds to promote the industry, then visitor counts will drop and so will the income that fuels the state's economy. But visitors also contribute to state coffers directly through the taxes on everything they purchase in Hawaii including hotel rooms, visitor activities and purchases of food and souvenirs. To that extent, a good part of the general fund tax collections is contributed by visitors. If the argument is that visitors should pay for other "visitor related" programs, then paying for those programs out of general funds would be more appropriate than stealing the money from what is identified as a tax paid specifically by the visitor.

Rather than the continual earmarking of TAT revenues, a direct appropriation of general funds would be preferable. Earmarking the TAT revenues for these programs that not only benefit the visitors but the community at large, decreases transparency and accountability.

Finally, it should be remembered that revenues earmarked into a special fund, in this case the tourism special fund, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Digested 3/30/15