TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1340, H.D. 1

February 21, 2013

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

House Bill No. 1340, H.D. 1, amends Section 237D-6.5, HRS, to remove the temporary $71 million cap on Transient Accommodations Tax (TAT) revenues that may be deposited into the Tourism Special Fund (TSF).

The Department of Budget and Finance opposes this bill. The $71 million cap on deposits into the TSF was enacted by Act 103, SLH 2011, to raise additional revenues for the general fund through June 30, 2015. This cap and the resulting general fund revenues are factored into the Administration's general fund financial plan. According to the Department of Taxation estimates, removing this cap prematurely will result in general fund losses of $30.0 million in FY 14 and $38.3 million in FY 15.

The department is aware of some of the fiscal and financial issues related to Hawaii Tourism Authority, the Convention Center, the TSF and with the formula for distribution of the TAT across all of the TAT beneficiaries. To this extent, the department would be open to review and consideration of revising the amount of the cap of TAT revenue to HTA, but would not recommend or support eliminating the cap within the next two fiscal years.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 21, 2013
Time: 4:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 1340, H.D.1 Relating to the Transient Accommodations Tax

The Department of Taxation (Department) appreciates the intent of H.B. 1340, H.D. 1 and provides the following information for your consideration.

H.B. 1340, H.D. 1 amends Section 237D-6.5, Hawaii Revised Statutes, by removing the temporary cap of $71 million per year of the transient accommodations tax revenues to be distributed into the tourism special fund, effective July 1, 2020.

If the effective date is July 1, 2013, as in H.B. 1340, the Department notes that the estimated revenue loss to the general fund of $33.0 million in fiscal year 2014 and $38.3 million in fiscal year 2015. The estimated revenue loss to the general fund would be an additional distribution to the tourism special fund.

Thank you for the opportunity to provide comments.

HAWAI'I TOURISM AUTHORITY
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
kelepona tel 808 973 2255
kelepa'i fax 808 973 2253
kahua pa'a web hawaiitourismauthority.org

Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
H.B. 1340
Relating to Transient Accommodations Tax
House Committee on Finance
Thursday, February 21, 2013
4:00 p.m.
Conference Room 308

The Hawai'i Tourism Authority (HTA) supports H.B. 1340, H.D. 1, proposes to repeal the $71 million limit on deposits into the Tourism Special Fund.

Hawai'i's visitor industry has experienced significant gains in visitor arrivals and spending over the past three years. To ensure the continued success of our industry for the state's economy to be sustainable, we need to increase our marketing and promotion efforts, revitalize our tourism product, and broaden our reach into areas such as the meetings, conventions, and incentives business market.

The removal of the $71 million limit will enable the HTA to invest in the following market development and experiential activities. This investment will result in increasing the existing $1.553 billion in state tax revenue.

- Market Development: Support air access by cultivating new carriers and routes; support existing direct service and work for development of other origination points in all major market areas; increase visitor distribution to the neighbor islands; and stimulate the meetings, conventions and incentives business with a focus on high potential vertical markets.
- Experiential Development: Establish the Hawaiian Music and Dance Museum at the Hawai'i Convention Center; establish multiple LPGA events on multiple neighbor islands; improve the arrival and departure experience for cruise by aiding in improvements at harbors; support career development; increase Hawaiian Culture activities and initiatives throughout all programs; and expand upon existing HTA programs, events and festivals to further diversify the experiential assets of our people, place and culture.

We request that the effective date be amended to "July 1, 2013."

Mahalo for the opportunity to offer these comments and for your favorable consideration of repealing the $71 million cap on TAT revenues deposited into the Tourism Special Fund.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Disposition to tourism special fund

BILL NUMBER: HB 1340, HD-1

INTRODUCED BY: House Committee on Tourism

BRIEF SUMMARY: Amends HRS section 237D-6.5(b)(2) to repeal the limit of $71,000,000 in transient accommodation revenues which is deposited to the tourism special fund.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: The legislature by Act 103, SLH 2011, restricted the amount of transient accommodations tax (TAT) revenues deposited into the tourism special fund between July 1, 2011 and June 30, 2015 to $69 million so that additional revenue would be deposited in the state's general fund to address the state's dire financial condition. The next year the legislature by Act 171, SLH 2012, increased the amount from $69 million to $71 million and provided that the additional $2 million is to be used for the development and implementation of initiatives to increase international travel and tourism to Hawaii. While this measure proposes to repeal the limit of $71 million of TAT revenues that may be deposited into the tourism special fund, the earmark of $2 million is still active.

The restriction of TAT revenues deposited into the tourism special fund by Act 103, SLH 2011, was enacted to provide additional revenues to the state's general fund until June 30, 2015. While this measure would repeal that limitation before June 30, 2015, it is questionable whether the financial condition of the state general fund and accompanying state spending can sustain the enactment of this measure. While the earmark of $2 million for the promotion of international travel and tourism still remains, as with any earmarking, it is questionable whether the amount diverted would be sufficient or insufficient for the intended purposes. Such funds are provided without legislative scrutiny or approval. If it is the intent of the legislature to fund such initiatives, a direct appropriation would be more appropriate. More importantly, by earmarking funds that are designated originally for tourism promotion and visitor industry research, funds for that particular area are reduced, curtailing the ability to respond appropriately to needs and market changes. It should be remembered that funds for this program area were siphoned off to provide funding for the state parks fund and the special land and development fund for the Hawaii statewide trail and access program.

Rather than perpetuating the diversion of TAT revenues, lawmakers should replace the siphons from the tourism special fund with appropriations if they deem such other programs of importance. This would make lawmakers more accountable for their actions. What should be noted here is exactly what was predicted when the legislature began setting up special funds with carve-outs from existing revenue streams. Because these funds are earmarked for specific purposes, they become targets to tack on seemingly related program expenditures either because they are of lesser priority and could not garner support for funding out of the general fund or would meet with lesser resistance as the funds are already earmarked and out of the reach of lawmakers to be utilized for other unrelated activities.

Digested 2/19/13

HAWAI'I LODGING & TOURISM ASSOCIATION
2270 Kalakaua Ave., Suite 1506
Honolulu, HI 96815
Phone: (808) 923-0407
Fax: (808) 924-3843
E-Mail: hhla@hawaiihotels.org
Website: www.hawaiihotels.org

A Tradition of Kokua for 35 Years
Are You Walking???
www.charitywalkhawaii.org

Testimony of George Szigeti
President and CEO
Hawaii Lodging and Tourism Association on H.B. 1340
Relating to Transient Accommodations Tax
House Committee on Finance
Thursday, 21, 2013
4:00pm

Good Afternoon Chair Luke, Vice Chair Nishimoto, and members of the Committee

The Hawaii Lodging and Tourism Association supports H.B. 1340, proposes to repeal the $71 million limit on deposits into the Tourism Special Fund.

Hawai`i's visitor industry has experienced significant gains in visitor arrivals and spending over the past three years. To ensure the continued success of our industry for the state's economy to be sustainable, we need to increase our local and Global marketing and promotion efforts. We need to continue to invest to keep and grow our market share in a worldwide competitive visitor industry. The removal of the $71 million limit will enable the HTA to invest in the following market development and experiential activities. This investment will result in increasing the existing $1.553 billion in state tax revenue.

- Diversify and Expand into New Source Markets. We need to go beyond just the leisure markets, but attract more MCI business to the islands.
- Grow Market Share in North America and Japan, while expanding our efforts into new burgeoning markets like China, Taiwan, Brazil.
- Attract more First-Time Visitors.
- Stimulate increased Airlift. Continue to market direct flights to our Neighbor Islands.
- Continue to build on the Hawaiian "Experience" through events and festivals, and focus on the Aloha Spirit and sense of place that truly separates Hawaii from all other visitor destinations

If we continue to do these positive things, the results will mean more jobs and stable careers for local people, it will allow for more reinvestment in infrastructure, it will drive increase State Tax Revenue, and it will boost our Neighbor Island economic growth.

Mahalo for the opportunity to offer these comments and for your favorable consideration of repealing the $71 million cap on TAT revenues deposited into the Tourism Special Fund.