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February 17, 2015

TO: The Honorable Tom Brower, Chair  
House Committee on Tourism

FROM: Mike White  
Council Chair 

SUBJECT: **HEARING OF FEBRUARY 18, 2015; TESTIMONY IN OPPOSITION TO  
HB 403, RELATING TO TRANSIENT ACCOMODATIONS TAX**

Thank you for the opportunity to testify in **opposition** of this measure. The purpose of this bill is to remove the current cap on transient accommodations tax revenues to be distributed to the counties *and* establishes the distribution of these revenues as a percentage of TAT collected for infrastructure and services related to increased tourism.

The Maui County Council has not had the opportunity to take a formal position on this bill. Therefore, I am providing this testimony in my capacity as an individual member of the Council. In general however, the Council supports increased TAT funds and the removal of the current cap.

In addition to serving as chair of the Maui County Council, my testimony is also informed by my visitor industry experience as general manager of the Ka'anapali Beach Hotel for 29 years, and through my service as a state legislator from 1993 to 1998.

I oppose this measure for the following reasons:

1. Although I know all four counties' are supportive of the removal of the current cap, it would be a major hindrance to restrict TAT revenues for infrastructure and services related to increased tourism. The impacts of tourism are diverse and the counties' need the flexibility to respond as necessary. I am sure the counties' would be more open to the idea if additional funds were allocated to the counties and the State imposed the same restriction on its use of TAT funds.
2. The TAT cap was understood to be a temporary measure to assist the State with a budget shortfall because of a 9.8 percent drop in tax revenues in 2009. Beginning in 2010, the State's revenue collections began to recover.

In July 2011, the State capped the counties' share of the TAT at a time when the counties' property values had dropped significantly, which resulted in declining property tax collections.

Since this no longer appears to be a temporary measure, it is critical for the State to revisit the distribution ratios to address the negative impacts to counties'. As shown in the following chart, the State has increased its share of the TAT distribution by \$179 million since 2007, while TAT collections have increased by only \$170 million during the same period:

	<b>TAT Received</b>		<b>Change</b>	
	2007	2014	\$	%
Convention Center	\$38.9M	\$33.0M	<b>-\$5.9M</b>	<b>-15.2%</b>
Tourism Special Fund	\$76.9M	\$71.0M	<b>-\$5.9M</b>	<b>-7.7%</b>
Oahu	\$44.4M	\$45.4M	<b>\$1.0M</b>	<b>2.2%</b>
Maui	\$23.0M	\$23.5M	<b>\$0.5M</b>	<b>2.2%</b>
Hawaii	\$18.7M	\$19.2M	<b>\$0.4M</b>	<b>2.2%</b>
Kauai	\$14.6M	\$14.9M	<b>\$0.3M</b>	<b>2.2%</b>
<i>State of Hawaii</i>	<i>\$8.3M</i>	<i>\$188.2M</i>	<b><i>\$179.9M</i></b>	<b><i>2161.7%</i></b>

Effectively, **the State of Hawaii has increased its distribution by 2161.7 percent**, while the counties' were increased by a meager 2.2 percent. Both the Convention Center and Tourism Special Fund are receiving significantly less than in previous years.

- Local governments bear a significant responsibility for providing a wide-array of services and infrastructure necessary to support a vibrant visitor industry. For that reason, hotel room taxes like the TAT are established as municipal or county taxes throughout the nation.

While the State has taken a greater share of the TAT for itself, the cost of core services provided to our residents and visitors have continued to increase. On average, costs for core services in Maui County from 2007 to 2014, **increased 33 percent** or around \$27 million, yet Maui County has only received an increase in TAT revenue of \$508,623 or 2.2 percent over the same period.

	<b>Cost increases</b>		<b>Change</b>	
	2007	2014	\$	%
Fire	\$21.9M	\$29.9M	<b>\$7.9M</b>	<b>36.1%</b>
Parks	\$23.7M	\$29.9M	<b>\$6.2M</b>	<b>26.5%</b>
Police	\$37.9M	\$50.5M	<b>\$13.1M</b>	<b>35.3%</b>

It is often stated that counties should increase their property tax rates. *We have done exactly that* in response to declining property values. Maui County has *reduced* exemptions and *increased* tax rates over the last five years. The result is an **increase of 29 percent** in the effective tax rate per \$1,000 of property value. Along with our property taxes, the TAT distribution provides critical support for visitor-related infrastructure and operating expenses.

4. For the neighbor islands, the TAT distribution is particularly important because our economic regrowth continues to lag behind that of Oahu. Additionally, visitors make up a much larger portion of the de facto population. The increase in the cap last year was much appreciated, but ***fairness dictates that more should be done***. It is simply not right for the State to have helped itself to a tax meant to benefit the counties'. With the State receiving 23 times more than in 2007 and the counties' getting an increase of just 2.2 percent, it is only fair and appropriate for more parity and balance in the TAT distribution.

For the foregoing reasons, I **oppose** this measure.