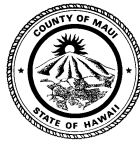


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February 12, 2016

TO: The Honorable J. Kalani English, Vice-Chair
Senate Committee on Tourism and International Affairs
The Honorable Clarence K. Nishihara, Chair
Senate Committee on Public Safety, Intergovernmental, and Military Affairs

FROM: Mike White
Council Chair 

SUBJECT: **HEARING OF FEBRUARY 16, 2016; TESTIMONY IN OPPOSITION TO SB 2987, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in **opposition** to this bill. The purposes of this measure are to establish an annual allocation of Transient Accommodations Tax revenue to the counties in the amount of \$103 million and to create a State-County Functions Working Group on July 1, 2022 to recommend the appropriate allocation of TAT revenue between the State and counties.

The Maui County Council has not had the opportunity to take a formal position on this matter. Therefore, I am providing this testimony in my capacity as an individual member of the Council.

In addition to serving as Council chair, my testimony is also informed by my visitor-industry experience as general manager of the Ka'anapali Beach Hotel for 30 years and through my service as a State legislator from 1993 to 1998.

I oppose this measure for the following reasons:

1. This measure would codify the ill-advised policy that the allocation of TAT revenue to the counties should be based on the proportionate expenditures by the State and the counties for all public services. This contradicts the conceptual and legal bases for the TAT. Act 185 (1990) set the TAT rate at 5 percent, with 95 percent of revenue returned to the counties under a statutorily established formula to cover visitor related expenses. The State retained 5 percent for administrative purposes. Beginning in 2009, the Legislature dramatically reallocated TAT to help balance the State budget due to the economic downturn. The State increased their TAT share by arbitrarily capping the counties' allocation, but offered no assistance as the counties also experienced economic hardship in the ensuing years.

2. Today, the State should have adequate resources to return additional TAT resources to the counties because General Fund revenues for FY 2017 are projected to be more than \$7.1 billion and State revenues have increased year over year, amounting to \$547 million over FY 2016, or 8.3 percent; \$825 million over FY 2015, or 13.1 percent; and \$1.1 billion over FY 2014, or 19.2 percent.
3. The State-County Functions Working Group created under Act 174 (2014) issued a report that found the counties are responsible for 54 percent of net expenditures directly related to tourism, and the State provides 46 percent. I support the Working Group's recommendation to increase the allocation of TAT revenue to the counties. But, **an equal 50-50 split of total TAT collections** between the State and the counties would be more consistent with the TAT's history and purpose. As partners in Hawaii's governance, it is critical that the State provide a greater share of TAT to the counties, which provides essential services to residents and visitors.
4. From 2007 to 2015, the State's TAT revenue increased by \$196.6 million (or 2,363 percent), while the counties' TAT revenue increased by a mere \$2.2 million (or 2.2 percent). Yet, the collective cost of county services for police, fire, and parks increased by \$170.3 million over the same period (or 30 percent). The reasonable action now is to return a fair share of the TAT to the counties, which bear significant responsibility to provide services and infrastructure to support increased visitor industry demands. By unfairly denying TAT revenue to the counties, the State has been effectively requiring residents to pay for the visitors' share of expenses.
5. The policy for TAT revenue distribution should again be based on a formula that returns a set percentage of revenue to the counties where it is earned, rather than a fixed amount. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change the statute. A fixed-distribution policy gives the wrong impression that returning TAT revenue to the counties is a sort of charitable donation and requires the counties to beg the Legislature for more money as visitor-related expenses grow.

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