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October 6, 2015

TO: Honorable Simeon R. Acoba, Chair
and Members of the State-County
Functions Working Group (TAT)

FROM: Mike White
Council Chair

SUBJECT: **MEETING OF OCTOBER 7, 2015; TESTIMONY ON ALLOCATION OF TRANSIENT ACCOMODATIONS TAX REVENUES**

Thank you for the opportunity to testify on this important matter. The Maui County Council has not taken a formal position on the allocation of transient accommodations tax (TAT) revenues. Therefore, I am providing this testimony in my capacity as an individual member of the council.

At this critical juncture, I would like to reiterate that the counties' share of the total TAT revenue, at a minimum, should be fixed at 50 percent.

As stated in my previous testimony, I hope you will take time to review the *2014 HVS Lodging Tax Report* that lists 150 cities, special districts, and counties throughout the nation incorporating all taxes imposed on lodging, including state taxes. This report includes, in my opinion, enough data to set a fair benchmark.

In reviewing the data, the 150 *local* governments in the report receive an average of a 9.08 percent accommodations tax rate. In contrast, counties in Hawaii on average receive a 2.26 percent accommodations tax rate, ***which is less than a quarter of the 9.08 percent average among our national peers.***

The State of Hawaii receives revenues equivalent to a 10.99 percent tax rate, which is more than double the 4.33 percent that the states of the 150 local governments' average. In other words, ***the State of Hawaii takes more than 2.5 times more of the accommodations taxes collected in local jurisdictions than other states do.***

The State provides a mere 28 percent of the overall lodging taxes to counties, but only eight cities in the study receive anything below 40 percent in accommodation taxes. In addition, 21 percent of the municipalities in the study receive 100 percent of taxes on lodging, and ***67 percent in the study receive 60 percent or more***.

We also must keep in mind that Hawaii utilizes a general excise tax and most other states employ a sales tax. Therefore, the State has a greater ability to raise revenue.

	Local Gov't	*State*	*Total*
Average accommodations tax rate of 150 municipalities	9.08%	4.33%	**13.41%**
Current average accommodations tax rate for Hawaii counties	2.26%	10.99%	**13.25%**
Proposed 60-40 split accommodations tax rate for Hawaii counties	3.70%	9.55%	**13.25%**

Despite the new proposal of 60 percent of accommodations revenue going to the State and 40 percent to the counties, ***this still does not bring us close to our peers nationally.***

COUNTIES HAVE KEY RESPONSIBILITES
I would like to reiterate that local governments bear a significant responsibility for providing a wide array of services and infrastructure necessary to support a vibrant visitor industry. While the State has taken a greater share of the TAT, the cost of core services provided by the counties to our residents and visitors have continued to increase.

On average, the cost 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.

	Cost increases		*Change*	
	2007	*2014*	*$*	*%*
Fire	$21.9M	$29.9M	**$7.9M**	**36.1%**
Parks	$23.7M	$29.9M	**$6.2M**	**26.5%**
Police	$37.9M	$50.5M	**$13.1M**	**35.3%**

It is often said that counties should increase their property tax rates. *We have done exactly that* in response to declining property values. Since the start of the recession, Maui County has *reduced* exemptions and *increased* tax rates. The result is an ***increase of 23 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.

Some State officials erroneously view giving TAT to the counties a potential loss. But the State and the counties serve the same constituents of Hawaii, which is why I continue to urge legislators to view these proposals as shared investments.

CONCLUSION

As the visitor industry begins to rebound, it is only fair that the counties receive a larger share of the TAT. National data clearly suggest counties in Hawaii are lagging behind their Mainland counterparts in the amount of revenue generated from lodging taxes.

With the current distribution, we rank 149 out of 150 in lodging taxes distributed to counties. With the proposed 40 percent distribution to counties, our ranking would improve to only 142.

It is critical to note the TAT distribution is particularly important to Neighbor Islands because our economic regrowth continues to lag behind that of Oahu. In addition, visitors in the Neighbor Islands 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.

The counties are currently receiving $103 million in TAT revenue or approximately 25 percent of the total TAT revenue. If the counties received the same portion as an average municipality in the HVS study, the counties would be receiving over $270 million.

At a minimum, I firmly believe that the counties' share of the total transient accommodations tax revenue should be 50 percent. This would move us up to the rank of 130 out of 150. Thank you for your consideration.