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COUNTY COUNCIL

COUNTY OF MAUI
200 S. HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.MauiCounty.us

February 27, 2017

TO: The Honorable Sylvia Luke, Chair
House Committee on Finance

FROM: Mike White
Council Chair

SUBJECT: **HEARING OF FEBRUARY 28, 2017; TESTIMONY IN <u>STRONG OPPOSITION</u> TO HB 1586, HD 1 RELATING TO TAXATION**

Thank you for the opportunity to testify in **strong opposition** of this measure. The main focus of my opposition is on the phasing out of the county allocation of the transient accommodations tax ("TAT") revenues over a three-year period.

The Hawaii State Association of Counties, including the Maui County Council, supports a more fair TAT allocation to the counties, to equal 45 percent of the amount of revenues remaining after all other allocations are made.

The counties over the years have strongly supported a greater share of TAT. Phasing this out will further exacerbate the ability to fund core visitor services such as fire, police, and parks services and the upcoming 14 public union contracts. The reduction of TAT will also force the counties to raise revenue through property taxes, which will have direct consequences on residential rental prices and will no doubt impact businesses, which will pass along cost increases to consumers.

I strongly **oppose** this measure for the following reasons:

1. Reducing the counties share of the TAT contradicts the conceptual basis for the tax, which was established to help the counties fund **visitor-related expenses** based on a **percentage of earned revenue**.

2. Over an eight-year period, the counties have incurred $170 million in cost ***increases*** for fire, police, roads, and park services. At the same time, the increase in the counties TAT distribution was only $2.2 million - the pace of expenditures far exceed the current distribution of TAT revenue. Basic fairness and sound fiscal practices favor a policy that ***increase*** the distribution to the counties at the same rate revenues grow – **NOT a decrease**. By unfairly decreasing TAT revenue to the counties, the state has been effectively requiring residents to pay for visitors' share of expenses.

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 supporting tourism, while the State provides 46 percent. They recommended that after specific appropriations, the remainder of the TAT should

be allocated to the State and counties, with the State receiving 55 percent, and the counties receiving 45 percent. **It did not recommend a decrease in the distribution.**

4. If TAT revenue is decreased, the counties will be forced to raise property taxes and **will place the burden of paying for visitor-related services on our local residents**. This is unfair, especially those who may rent their home. They will be left to pay more in their rent due to the trickle-down effect, and will likely compound Hawaii's affordable housing and homeless crises.

5. According to visitor-industry consultant HVS, Hawaii counties receive the lowest amount of taxes compared to our peers across the nation. Counties in Hawaii on average receive 17 percent of revenues when combining hotel room revenues and sales tax, while on average, peers across the nation receive 67 percent. This measure would reduce the counties share to zero. I find there is no rationale for this action.

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

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