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February 13, 2017

TO: The Honorable Richard H.K. Onishi, Chair
House Committee on Tourism

FROM: Mike White
Council Chair

SUBJECT: **HEARING OF FEBRUARY 14, 2017; TESTIMONY IN SUPPORT OF HB 317, RELATING TO TRANSIENT ACCOMODATIONS TAX**

Thank you for the opportunity to testify in **support** of this measure. This bill adjusts the allocation of the transient accommodations tax ("TAT") revenues to the tourism special fund and adjusts the allocation to the counties to equal 45 percent of the amount of revenues remaining after all other allocations are made.

This measure is in the 2017 Hawaii State Association of Counties Legislative Package and therefore, I submit this testimony on behalf of the Maui County Council.

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 30 years, and through my service as a state legislator from 1993 to 1998.

I **support** this measure for the following reasons:

1. 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.

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

3. Pursuant to Act 185 (1990), 95 percent of the TAT revenue was returned to the counties. The dramatic reallocation of the TAT in 2009 was to help balance the State budget due to the economic downturn. The State increased the TAT and arbitrarily capped the counties' share to help balance its budget, but offered no significant assistance as the counties experienced greater economic hardship in the ensuring years.

4. From Fiscal Year ("FY") 2007 to FY 2015, the State's annual share of TAT revenue has increased by $196.6 million, while counties only received an additional $2.2 million. 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.

5. During the same period, counties have incurred $170 million in cost ***increases*** in fire, police, roads, and park services. County expenditures for tourism-related services continue to rise at a pace far exceeding the current distribution of TAT revenue. Sound fiscal practices favor a policy that **increases** the distribution of TAT revenue to the counties at the same rate that revenues grow.

6. 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 capped amount of money. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change the statue. A capped-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 **support** this measure.

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