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February 14, 2017

TO: The Honorable Glenn Wakai, Chair
Senate Committee on Economic Development, Tourism, and Technology

The Honorable Clarence K. Nishihara, Chair
Senate Committee on Public Safety, Intergovernmental, and Military Affairs

FROM: Mike White
Council Chair

SUBJECT: **HEARING OF FEBRUARY 15, 2017; TESTIMONY IN SUPPORT OF SB 1290 RELATING TO THE TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in **support** of this important measure. The purpose of this bill is to (1) adjust the allocation of transient accommodations tax revenues to the tourism special fund for inflation; and (2) adjust the allocation to the counties to equal 45 percent of the amount of revenues remaining after all other allocations are made.

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

MISC. COM. 745

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 a temporary measure to help balance the State budget due to the economic downturn. At the time, the State increased the TAT and arbitrarily capped the counties' share to help balance the State's budget. Since then, the cap for the counties has remained in place and the State has offered no significant assistance as the counties have experienced greater economic challenges in the ensuing years.

4. From Fiscal Year 2007 to 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 fixed amount of money. A formula-based policy allows distributions to the counties to increase as visitor numbers grow, without a need to change State law. Further, a capped-distribution policy gives the wrong impression that returning TAT revenue to the counties is a kind of charitable donation that must be sought by the counties year after year. TAT revenues are not charity to the counties, but money owed to them. TAT is revenue generated from tourists intended to cover county costs associated with hosting those tourists.

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

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