State-County Functions Working Group (Transient Accommodations Tax)
(Established by Act 174, Session Laws of Hawai'i 2014)
State of Hawai'i
http://auditor.hawaii.gov/task-forceworking-group/

Minutes of Meeting

Date: Wednesday, August 5, 2015

Time: 10:00 a.m.

Place: State Capitol
415 S. Beretania Street
Conference Room 414
Honolulu, Hawai'i

Present: Simeon R. Acoba, Chair, Chief Justice Appointment
Sananda Baz, County of Maui Appointment
Ed Case, House Appointment
Mary Alice Evans, Governor Appointment
George Kam, Senate Appointment
Neal Miyahira, Governor Appointment
Ray Soon, City and County of Honolulu Appointment
Jesse Souki, Governor Appointment
Tina Yamaki, House Appointment
Kerry Yoneshige, Governor Appointment

Kathleen Racuya-Markrich, General Counsel, Office of the Auditor
Jayna Oshiro, Analyst, Office of the Auditor
Pat Mukai, Secretary, Office of the Auditor

John Kirkpatrick, Belt Collins Hawai'i
James Mak
Mike White, County of Maui Council Chair
Margaret Wille, County of Hawai'i Councilmember
Stacey Tagala, House Finance Committee

Excused: Steven Hunt, County of Kaua'i Appointment
Deanna Sako, County of Hawai'i Appointment
Ronald Williams, Senate Appointment

I. Call to Order: Chair Acoba called the meeting to order at 10:02 a.m., at which time quorum was established. The agenda for this meeting was filed with the Office of the Lieutenant Governor, as required by Hawai'i Revised Statutes, Section 92-7 (b).

II. Public Testimony

1. Mr. Mike White, County of Maui, Council Chair, and also General Manager of the Ka'anapali Beach Hotel, provided public testimony. He stated that he's been the general manager of the Ka'anapali Beach Hotel for 29 years; about 5 years as a state legislator (1993 to 1998); and now almost 5 years as the council chair. He indicated that he is providing testimony in his capacity as a member of the Council. However, he said that the Maui County Council did support House Bill No. 197 this past session to remove the cap on TAT allocation to the counties. He stated that at this critical juncture, they have been going back and forth, arguing over how much of the TAT should go to the State,

county, Convention Center, and Hawai‘i Tourism Authority (HTA) for marketing. For many reasons, he firmly believes that the counties' share of the total TAT revenue, at the minimum, should be fixed at 50 percent.

Mr. White provided a brief history on the TAT. For 18 years, throughout the 1970s and '80s, the hotel industry successfully defeated proposals at the Legislature to impose a hotel room tax. In the late '80s, it was when the people in Honolulu wanted to build the Convention Center that the room tax became an important consideration. At the beginning of session, the industry and the Legislature agreed on a 2 percent room tax earmarked for the construction and ongoing support of the Convention Center. By the end of session the room tax was 5 percent, and the earmark was removed.

He stated that it was 5 percent to the general fund as opposed to the 2 percent into a fund for the Convention Center. Those on the neighbor islands weren't very excited about paying a room tax to build a Convention Center they couldn't drive to. We remain the only hotels in the country that are paying for a Convention Center they can't get to. Through this setup, it was only fair for the counties to receive a portion of the TAT to off-set tourism-related costs and services. Two years after the establishment of the TAT, Maui got $12 million of the TAT revenue and replacement of the grants-in-aid that had been previously provided to the county.

He also stated that slight adjustments were made throughout the years but since 1998, 44.8 percent of the TAT was distributed to the counties, until the distribution was capped at $93 million in 2011 due to the downturn in state revenues. State revenues were dropping, but the counties' revenues didn't drop because revenues were based on property taxes and property values. The tax rate also increased from 7.25 percent to 9.25 percent. It is critical to note that in 2011, the cap and the rate increase were understood to be temporary measures to help move the State back onto stable financial ground. However, for fiscal years 2015 and 2016, the Legislature raised the TAT revenues allocated to the counties to $103 million, but reduced the allocation to $93 million thereafter.

Mr. White distributed handouts. He stated that this information from other jurisdictions should provide the Working Group a better understanding of what is done in other places with the various taxes on the lodging industry. The first handout is the HVS Convention, Sports, and Entertainment Consulting (HVS) study on the hotel lodging taxes across the country and it provides information on what is done by each state and what each state gets from sales and lodging taxes. A spreadsheet on all states and also on 150 cities nationwide is included in the HVS study. He stated that this is important because for many years, he has asked the Tax Foundation of Hawai‘i if there is any place we can go to get this kind of information. He also asked the Hotel Association, which has gone to the National Hotel Association, and hasn't received anything. This is the first time he has found an entity that has compiled this information. The *2014 HVS Lodging Tax Report* includes data to set a fair benchmark. The report says local municipalities have a 9.1 percent tax rate for lodging, compared to 4.3 percent rate for states, with an average combined tax rate of 13.41 percent.

He stated that Hawai‘i is pretty much in the middle as far as total tax rate. Specifically in Honolulu, of the 13.75 percent tax rate on lodging, 2.8 percent of the rate goes to the City and County of Honolulu and the remaining 10.94 percent goes to the State. The 2.8 percent includes 0.5 percent of the General Excise Tax (GET) and the overall share of the county TAT. He explained that since Hawai‘i utilizes a GET and most other states employ a sales tax, the GET must be converted to make a fair comparison. Data provided by the Tax Foundation suggests that our GET is equivalent to an 11 percent sales tax. Taking into account this conversion, the City and County of Honolulu receives a 2.8 tax rate (TAT and GET surcharge) and the State receives the equivalent of 17.9 percent tax rate, which is more than four times the average rate (4.33 percent) among the cities in the report.

Mr. White suggested using all resources at the WG's disposal and see if the WG is able to find additional information on this. These handouts provide a significant amount of information which will help the WG in discussions pertaining to a fair distribution. He stated that we all realize the State does things differently here than on the mainland. There are a lot of expenses the State handles for the counties. The significant disparity here outweighs the responsibilities the State has towards our visitors. The counties come into contact with visitors at a far greater extent than the State. Visitors come through the airports paid for by landing fees and other fees from the airlines to the State, not tax dollars. For example, when visitors come to Maui, water is provided by the county water department. In the event of an accident, the county fire and police departments are involved. When visitors go to the parks, the parks are handled by the counties. These are all funded by the counties.

Member Souki arrived at 10:15 a.m.

Mr. White's concerns are by watching the changes in the TAT, since 2007, the State has increased its share of the TAT distribution by $179 million while the collections have only increased by $170 million. The effect is that the State has received almost 23 times more funding than in 2007, while the increase in funding given to the counties has been held at a meager 2.2 percent. The counties bear the most significant costs of taking care of visitors. Local governments bear significant responsibilities providing services and infrastructure necessary to support a vibrant visitor industry. While the State has taken a greater share of the TAT, the costs of core services provided for our residents and visitors have continued to increase. On average, the cost for core services for Maui County from 2007 to 2014 increased by 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.

Further, it is often stated that the counties should increase their property tax rates and they 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 that resulted in an increase of 23 percent in the effective tax rate per $1,000 of property value. Along with property taxes, the TAT distribution provides critical support for our visitor-related infrastructure, and operating expenses.

In conclusion, Mr. White stated that as the visitor industry begins to rebound, it is only fair that the counties receive a larger share of the TAT. Also, the national data clearly suggests, the counties in Hawai'i lag behind mainland counterparts and the amount of revenue generated from lodging taxes. It is also important to note the TAT distribution is particularly important to the neighbor islands because their economic re-growth continues to lag behind O'ahu. Additionally, visitors make up a much larger portion of the de-facto population.

Mr. White stated that the revenues for hotels are up on O'ahu (29 percent), Maui (3 percent), and Kaua'i (2 percent), and down on the Big Island. When saying lagging behind, this is what he's referring to. These numbers are compared to 2007.

The increase in the cap last year was appreciated but fairness dictates that much more should be done. It's simply not right for the State to help 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, approximately 25 percent of the total TAT revenues. If counties received the same portion of tax as an average municipality as reported in the HVS study, the counties would be receiving over $270 million. Mr. White reiterated that at a minimum, the counties' share of the TAT should be 50 percent.

Member Case stated that the TAT is split four ways: 1) Tourism Special Fund for HTA; 2) Convention Center, 3) State, and 4) counties. The first two are directly related to tourism; the last two may or may not be directly related to tourism, which is one of the things the WG is trying to sort through—exactly what State and county portions are related to tourism. Since the counties' share is substantially less than where you want it to go and since in federal budgeting you can have more than 100 percent, where does the difference come from? He's assuming that Mr. White doesn't think the difference should be coming from HTA and even though they cannot drive to the Convention Center, it should somehow be funded. Should the extra come from the State?

Mr. White said Member Case is correct. He supports the HTA and Convention Center funding and doesn't support an increase in tax. It's important to remember that the majority of cities listed are mostly business destinations, they are not resort destinations like Hawai'i. Waikiki is far more resort than business travelers. So, it's hard to get excited on raising the overall tax because some of these places have the ability to charge a little bit more because it's business travel, not resort. It's more difficult to reach into your personal pocket to pay that tax than reaching into your corporate pocket. The balance should be brought between the State and the counties with respect to the generous amount provided by the visitor industry. The argument is often made that the tax is a pass through so it really doesn't impact the hotels. If the excise tax or the TAT is a pass through, why doesn't the State Legislature increase the GET? The TAT is probably 98 percent paid by visitors. So, we've been presented by the Legislature the option of passing 0.5 percent of the GET for their county. He chooses not to support that because they would be losing the TAT. He would trade visitor-generated dollars for dollars he doesn't have to ask of their constituents. As you see in the study, municipalities have the lion's share of lodging taxes. It's not good for the counties to have the ability to choose their own level of the TAT and split it off from the State.

Member Evans left the meeting at 10:26 a.m.

Member Case asked Mr. White whether there are other county-provided services related to tourism that would make the case for an increase to the counties. Mr. White answered that he cannot make the case for an increase but he knows counties depend very heavily on parks, police, and fire for any type of response to guest incidents. So the case cannot be made that the frequency of use is increasing; the case can be made that the costs of what's being done have certainly increased. For Maui, it went up about 33 percent. Because the County only got 2 percent more from the TAT, it had to make it up by increasing property taxes.

2. Ms. Margaret Wille, Councilmember, County of Hawai'i, provided public testimony. She supports Mr. White's testimony. On the subject of caps, she believes having a cap is wrong because you're taking away the incentive to do better. What the County of Hawai'i brings in for TAT will not make any difference because of the cap. She supports giving 20 percent to HTA from the State's share. She encourages the WG to look at whatever percentages are clear-cut. The responsibility of the WG is splitting between State and counties. She doesn't see it as splitting it three ways although she knows there are visitor representatives present. The simpler it is, the more likely it will stay in place.

III. a. Announcements, introductions, and correspondence

Correspondence from the Department of Taxation (DoTAX) was distributed. DoTAX provided the WG with the update on TAT collections for 2014 and 2015 as requested.

b. Minutes of May 6, 2015 meeting

It was moved by Member Baz, seconded by Member Yoneshige, and unanimously carried to approve the minutes of the July 1, 2015 meeting.

IV. Consultant Services

a. Ratification of Consultant Contract

Ms. Racuya-Markrich stated the contract is still pending. Chair Acoba asked if there's any more information. Member Soon also asked why is it taking so long. Ms. Racuya-Markrich stated we are waiting on approvals and then need to send it to the Department of Accounting and General Services for certification. Member Soon asked if it still makes sense for the group to have a consultant and to be spending the money. Ms. Racuya-Markrich answered that it's for the WG to decide. Member Soon stated because of the timing, will there be a change in the scope. Ms. Racuya-Markrich said we would need to make adjustments in the timetable, scope of services, and some of the deliverables.

Member Case stated if Ms. Racuya-Markrich could tell the WG the name of the contractor and the amount. Ms. Racuya-Markrich said she could not provide the information until the award is posted. Member Case said he has the same thoughts as Member Soon, and it's unfortunate that it is taking a long time. He said it's a lot of money in a condensed period of time and wondered whether we can produce the product that the group wants. If we have 10-12 months to do the work, it's okay, but if it's only 3-4 months, it's a different story.

Member Yoneshige asked if the notice to proceed is given on August 27th, can the scope of work be completed in the remaining time. He then asked whether is it possible, more likely than not, to complete the report, provided that the WG meets more frequently to approve progress of the consultant's work. Ms. Racuya-Markrich said it is possible, provided more meetings are scheduled.

Chair Acoba stated he assumes if the contract is presented to the WG for ratification, then it would be too late to modify the scope of the contract. He further stated that members may be thinking that having help is less relevant because of the limited amount of time versus the cost. We would want to make sure that what the State pays out justifies the product and with so little time left, it's somewhat difficult to determine whether it's worthwhile.

Member Yoneshige said the one concern he has in addition to cost is rushing to finish the report without adequate thought. He said finishing it to meet the deadline may compress the deliberation process.

Member Yamaki stated the WG shouldn't just do the work because we are racing to get it done. We shouldn't put out a product we're not proud of; it has to be something good, something we can stand by. She expressed that TAT is such a big part of the visitor industry and the visitor industry is such a big part of the State. We cannot just discount it, it doesn't affect only O'ahu. It affects the neighbor islands as well and it's not just in the resort areas, it affects everyone. We need to take a hard look at it and do the best we can and hopefully we do have the time, not just do it because we have the money.

Member Souki stated that because all the legislative reports are due at a particular time, maybe we could ask the Legislature to give us an extra month to do the work. Member Miyahira said his understanding is that the Legislature will take action this coming session on this issue, based on this report.

Member Case asked if the contract is all or nothing type of contract. He asked, can the contract be taken in stages, can it be authorized in stages, is there flexibility for us to engage to a certain extent and to certain costs, and on a certain timetable. Ms. Racuya-Markrich said yes, the contract is all or nothing.

Member Case asked if the end date for the contract deliverables is still the same. Ms. Racuya-Markrich answered yes, with final approval of the draft report at the WG's November 4th meeting.

Chair Acoba called for a recess at 10:55 a.m.

The meeting was reconvened at 11:02 a.m.

Ms. Racuya-Markrich stated that the work can be done and that the contract ends at the close of the 2016 legislative session. Chair Acoba also stated the consultants will help the WG during the legislative session. The consultant's work goes beyond just preparing the report. Also, since the WG has made substantial progress, the consultants can work quickly based on their expertise to put things together in a reasonable manner.

Chair Acoba further stated that the agenda item was only for ratification, so there is nothing to ratify. Member Miyahira asked if there will be two meetings in September and two meetings in October. Member Soon had thought the group would meet once a week. Chair Acoba said the WG should schedule additional meeting dates. Member Souki had the idea of creating an investigative group that could meet more often instead of meeting as a whole body. Ms. Racuya-Markrich said that was discussed at the last meeting. If you formulate an IG, you would still need to come back and present to the WG. Then at a subsequent meeting, the WG would accept what was presented. So the WG would still have to schedule additional meetings. Chair Acoba stated that it was brought up at the last meeting and the problem is that you need three meetings before a whole group discussion. He asked WG members for their availability in order to schedule additional meetings in September and October.

After discussion, the WG agreed to schedule additional meetings on: September 16th and October 21st. These meetings are in addition to their monthly regular meetings on September 2nd and October 7th.

Chair Acoba stated that he is hoping to see a draft of chapter one by September 16th. Ms. Racuya-Markrich stated that at the October 21st meeting, the WG would be approving the preliminary findings and recommendations.

Member Yamaki also suggested scheduling an additional meeting in November. The WG agreed to schedule a meeting for November 18th in addition to their regular monthly meeting on November 4th.

V. Allocation of TAT Revenues

Chair Acoba referred to the Allocation Models IG report that was accepted at the July 1, 2015 meeting, and asked for further discussion and agreement on the allocation between the State and the counties.

Member Soon stated he thought Hawai'i County Councilmember Wille was provocative when she said to simplify it, 60/40; 70/30; 50/50; don't be so complicated. The Allocation Models IG took into account different interests while being as politically pragmatic as possible knowing it's going through a political process. It would be easier to explain to the public if it's a very simple formula of the TAT between the State and the counties. The question is, where does the money come from when the Legislature in the future believes there's another good project that should be funded out of TAT. He stated that the Convention Center, HTA, and any other changes the Legislature wants to make should come out of the State's bucket.

Ms. Yamaki stated that it goes back to how it was in the '80s when everyone had to fight for money, it wasn't specifically for marketing. Instead of funding to the Hawai'i Visitors and Convention Bureau or HTA, the State had other priorities to build a building, fix roads or do something else and you run the risk of moneys lapsing to the general fund. That's why it was specifically carved out so that the visitor industry had money dedicated to marketing the State rather than going to the Legislature every year. The industry knew how much money there would be to formulate a plan every year that was consistent and to compete against places like Mexico, or the Caribbean, whose marketing budgets are a lot more and at a lot cheaper rate than what Hawai'i is selling for. In theory it's good, but in reality, it may not work. She stated another thing we have to realize is, it's not the residents of Hawai'i who pay TAT, unless you do a staycation. The majority of the TAT is being paid by visitors.

Member Case thought the formula is about as simple as you can get without going one step further. He said Member Yamaki's point about predictability for marketing moneys is important. The State gets to deal with the ambiguity; and HTA needs that certainty. The counties would be gratified with the certainty of 40 percent; and a possible upside if the State decides to share some of the excess. It's both simple and predictable.

Member Baz understands Member Soon's point from a county perspective. It's advantageous to have two simple set rates—one for the counties and one for the State; then the State decides how its portion will be allocated—HTA, Convention Center debt service, Turtle Bay, and whatever else the State decides to fund. He also understands the visitor industry's perspective of having to fight with the State every single year and having the same problem and argument of how much HTA is benefiting the counties versus the State. In the IG discussions, it was said that HTA benefits everyone. He suggested making three different percentages: 1) HTA; 2) State; and 3) counties. He also struggles with setting a minimum dollar amount because if there's a downturn in the economy and the minimum is hit, then we should all suffer for that minimum.

Member Yoneshige said he likes the original model that had the specifics set aside for HTA and the Convention Center and thought that was simplified enough and it addressed the percentage of allocations to the counties.

Chair Acoba stated what we had on the table that the allocation was 60/40. Member Soon said you first took the HTA money, then you took the whole thing and said 90 percent would be split 60/40 and the 10 percent to the Legislature. Chair Acoba said on the first carving out for HTA, the $83 million is about 20 percent and asked if the WG is in favor of carving out that amount for HTA if you adopt the specific amount.

Member Soon wanted to explain the philosophy of numbers as opposed to percentage because they didn't want to see HTA numbers slide. They want that to be held constant because you're going to climb out of recession and tourism is still going to be your primary industry. You need to have that marketing earmark, so the allocation doesn't drop. Chair Acoba stated if the revenues drop, HTA will still have the $83 million. Member Case said that number is actually less than what HTA is yielding now. HTA still has to chase to the Legislature for extra money but not for the entire $83 million.

Chair Acoba stated putting the issues aside of the commitments already made under the statute for example, North Shore, etc. the WG is dealing with whatever is left. Commitments have already been made in the future for TAT. If you say 20 percent, the statute already sets aside so much for debt service, Turtle Bay, etc. and the TAT money has already been allocated for those special funds.

Member Soon said the WG is re-structuring the whole TAT and can decide to take the North Shore funds and put it into the State bucket; otherwise the 60/40 split doesn't make any sense. Chair Acoba said then, we have to declare a moratorium on any further allocation of the TAT fund.

Member Baz said from the perspective of setting allocation models that will stand the test of time, the IG tried to separate out those things like debt services from the allocation model language. If the State decides to buy Turtle Bay land, the State is deciding to do that, it's their money that is paying for that. Whether it comes from TAT revenue or not, it's still general fund moneys that are paying for that and the counties can do the same thing. Theoretically, a portion could be coming from TAT because it benefits tourism but it's still coming from general fund moneys. It would be nice for the Legislature to respect the percentage distribution and if they decide to fund these extra items then that's coming from their portion. Otherwise, it degrades the whole structure and the counties will be getting back into the same argument every single time.

Member Miyahira stated the Turtle Bay purchase is coming from the general fund because of the way TAT is set up; you set the tax base, set the rates, moneys collected, moneys allocated, it goes to HTA and the Convention Center and any residual amount goes to the State. Recently, however, the Legislature has been tacking on other things. For example, the $1.5 million for the Turtle Bay is not affecting what's coming out from the top, it is taken from the residual.

Member Baz stated he would really like to move towards a model that the language doesn't change every time the State decides to do something. His point is that by cleaning up and taking all the extra items out, whether it's coming out of the State's general fund or not, it doesn't need to be in the TAT language.

Chair Acoba asked the WG to come to a modifiable proposition on what the split should be 60/40, 70/30, 50/50. Member Soon stated if the items are individually listed, the 60/40 split works. Member Yoneshige said when the State Duties and Responsibilities IG looked at the CAFR expenditures, they looked at the 70/30 split—70 to the State and 30 to the counties. He also recalls another report where expenditures were analyzed and that somehow the 60/40 entered into the discussion and the 60 percent seems to be in the middle. The calculations were done at a very high level and, the 60/40 split seemed to be a reasonable starting point.

Chair Acoba stated when the consultants begin their work, they can talk about the lower range, higher range, and the 60/40 might make a difference. He also asked if there is general consensus for a modification that the 60/40 is an acceptable split between the State and counties. Member Soon said only if the Convention Center, etc., comes out of the State's portion. If it doesn't, then, that won't work. Member Case indicated from an industry perspective, only if HTA is separated out.

Member Baz stated what the consultants will need from the WG is some ideas of what the group is comfortable reviewing and that's the 60/40 split—State gets 60 and the counties get 40. It's very similar to HTA receiving the $83 million and then 50/50 with the balance; it's almost exact. Member Yamaki suggested taking the HTA out first and then do the split to ensure that we still have a strong marketing arm and it doesn't just get absorbed. Member Baz said that's why he put HTA first, then the 50/50 after; it comes out to the same numbers as the 60/40 split.

Member Yoneshige prefers the $83 million option because if revenues are going up, the tourism industry is doing well, HTA doesn't need the money. If tourism revenues go down, spending increases. Any agency that needs more appropriations, would need to justify the increase, it shouldn't be automatic. Member Yamaki said the problem with that is you are limiting HTA from expanding out to other regions. We're seeing people from China and Korea. The $83 million is not enough nor is $93 million. Member Yoneshige said he is not a proponent of having a percentage increase just because revenues are going up. Member Soon indicated they are protecting the up side, not the down side.

Chair Acoba asked if the $83 million is taken from a specific number from this past year. The $83 million represents a lot of different considerations that are pertinent to this year; it may not have the rational basis; maybe a relationship you would want in a formula. The $83 million seems like an odd figure and this is why he would favor a percentage.

Member Case stated that because the $83 million stands for a minimum and it is predictable, the basic issue for the WG is whether to provide HTA a guaranteed minimum source of funding regardless of economic conditions. Chair Acoba asked what the $83 million was based on. Member Case explained that the basis for the $83 million is a legislative allocation which is going up now and HTA gets the up-side. The IG took the current revenues, total TAT revenues, and assumed a catastrophic reduction of one-third and asked what the split would be to protect the down-side. It came from two different directions.

Chair Acoba asked whether you can argue with $80 million because there's no basis except for the fact that what was decided was based on this past year.

Member Kam stated that it's in the budget. If you look at the spending, you can see exactly where that total amount came from. When you say $80 million, and take away $3 million for DLNR, it's huge. It's not extra money; it was absolutely justified. The challenge is to set a percentage. As Member Yoneshige said, you want to open up the up-side, and get legislative approval. It's a minimum base to take care of the down-side, at least you have the $83 million in-house. This year, it's at $93 million, but if you have the $83 million, it will take care of the down-side; it's a minimum base. If another $10 million is needed, it can be done legislatively or on a percentage scale. For example, if it's 20 percent and it goes up, we can tap into that based on the conditions as to how you want it set up. This is a shared faith. This way we can ensure growth; it's more of an investment in tourism knowing all the challenges from the other markets. Member Kam expressed HTA works together with DLNR for our natural resources and parks, and the counties for lifeguards and fire so visitors and residents have a better overall experience.

Member Souki had not heard of percentage-based funding where automatically, you get 20 percent, what's the incentive for any agency. If revenues go up, the assumption is the marketing must have worked. There needs to be some kind of process with the Legislature and the agency to justify increases. Member Yamaki said every year, there's an informational briefing and scrutiny of the budget and how they spend it. Member Kam said the concern is the moneys are going to the general fund; how is it properly funded for tourism to grow.

Chair Acoba stated Act 174 is based on percentage. This is not something new that it's out-of-the-box of what we recommend as a formula. Member Yamaki said what we have to keep in mind is TAT money is coming in generated from the visitor industry. If we don't take care of the visitors, we are not going to have any TAT.

Member Soon stated there is a balance between the importance of the visitor industry for generating TAT moneys and its impact on the rest of society. Chair Acoba stated it's a relationship because with tourists, a lot of money goes to HTA, the State and the counties, because they provide the environment for tourism to flourish. For this reason, the WG went through the exercise of categorizing services as high, medium, or low, in terms of how it affects the tourism industry.

Member Baz commented that as Maui County Budget Director, he understands Member Yoneshige's perspective of an agency needing to justify the resources they are asking for. Section 237D-6.5, HRS, provides that $83 million TAT be allocated to the Tourism Special Fund. Any amount or percentage, set by the WG will go into the Tourism Special Fund; not necessarily HTA can spend it, the Legislature still has to appropriate it.

Member Soon understood that Member Yoneshige means that with a fixed amount, we are protecting the down-side. On the up-side, if we are making a lot more money, they are being successful anyway. If the TAT is going up, why do they need more money. If they need more, then, they should ask the Legislature. Member Baz stated they would have to go back to the Legislature to justify their reasons anyway. Member Case agrees with Member Yoneshige that if there's a minimum, it is predictable. HTA should go to the Legislature if more money is needed.

Member Kam made the point that whether TAT goes to the county, State, HTA, Convention Center, it's directed towards tourist-related items that benefit the tourists or the community as a whole more than just throwing the money into the general fund. If it's 20 percent and it scales up, it's tourist-directed funds similar to DLNR's $3 million that is based on HTA's strategic plan.

Chair Acoba asked Member Kam what he is proposing. Member Kam stated it is 20 percent but based on these conditions. You have a base, $83 million or an amount deemed appropriate, 20 percent can be split 40/40, but the 20 percent is not an automatic for all costs. Anything on the up-side, you need to go through the legislative budget appropriation process, but should be directed to tourist-related funding. Chair Acoba asked whether the WG voted on this. Member Kam said no because this is for the consultants to consider. Chair Acoba thought the WG agreed on the 60/40 model; like the mid-range, almost 50/50 or 70/30. Member Kam said in the 60, there are all these other additional costs.

VI. Evaluate the division of duties and responsibilities between state and counties relating to the provision of public services

This item was not discussed.

VII. Investigative Groups

a. Establishment of other investigative groups–Discussion

This item was not discussed.

VIII. Adjournment: With no further business to discuss, Chair Acoba adjourned the meeting at 12:04 p.m.

Reviewed and approved by:

Jan K. Yamane
Acting State Auditor

[X] Approved as circulated.

TATWG/20150805