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: December 2, 2015

Time: 10:00 a.m.

Place: State Capitol
415 S. Beretania Street
Conference Room 225
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
Steven Hunt, County of Kaua'i Appointment
Neal Miyahira, Governor Appointment
Deanna Sako, County of Hawai'i Appointment
Ray Soon, City and County of Honolulu Appointment
Tina Yamaki, House Appointment
Kerry Yoneshige, Governor Appointment

Jan K. Yamane, Acting State Auditor, Office of the Auditor
Jayna Oshiro, Analyst, Office of the Auditor
Pat Mukai, Secretary, Office of the Auditor

John Kirkpatrick, Belt Collins Hawaii LLC
Michael Lim, Belt Collins Hawaii LLC

Excused: George Kam, Senate Appointment
Jesse Souki, Governor Appointment
Ronald Williams, Senate Appointment

I. Call to Order: Chair Acoba called the meeting to order at 10:05 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

None

III. Chair's Report

a. Announcements, introductions, and correspondence

None

b. Minutes of November 4, 2015 meeting

It was moved by Member Evans, seconded by Member Baz, and unanimously carried to approve the minutes of the November 4, 2015 meeting.

c. Minutes of November 12, 2015 meeting

It was moved by Member Evans, seconded by Member Baz, and unanimously carried to approve the minutes of the November 12, 2015 meeting.

IV. Consultant's Report

a. Draft Legislation, Chapter 4 (handout) – Discussion and approval

Chair Acoba entertained a motion to approve the draft legislation with discussion to follow. It was moved by Member Miyahira, seconded by Member Evans.

Member Case expressed comments for discussion. His first comment is in Part II, Section 2 (b) where it reads, "Revenues collected under this chapter shall be distributed in the following priority, with the excess revenues to be deposited into the general fund...." these are the four priority items the working group had agreed upon which is the $82 million minimum plus the Consumer Price Index (CPI) for the Tourism Special Fund (TSF) and the three existing allocations. He asked why is the priority as stated in the draft? He thought they decided that TSF would be the priority, then followed by the other three items; he doesn't know why it starts with Turtle Bay, then Convention Center, and then the TSF. His motion would be to prioritize TSF, Convention Center, Land Development Fund, and then Turtle Bay.

Member Evans stated she doesn't remember any discussion on the order of priority and actually thought that was the way Member Case had drafted it. Member Case said he drafted with TSF first followed by the other three items. Member Evans said she doesn't object to reordering the priorities. Member Sako said Member Case is consistent with what the discussion has been, which puts TSF as the number one priority. Member Baz stated the Legislative Reference Bureau (LRB) probably drafted it like this to plug in changes to existing language.

Member Miyahira commented that Turtle Bay is listed first because it's a debt service payment. His office was involved with this and that's why it's first priority. He explained that before it was percentages, so if the model was lower, it would have just been divvied up but with the caps, they wanted to make sure that in the worst case scenario, the first thing that gets paid is the debt service. Member Sako asked if there are specific bonds for Turtle Bay. Member Miyahira replied it's a reimbursable general obligation bond. Chair Acoba asked whether Turtle Bay has to go first. Member Miyahira said no, it was put first basically because of the caps. Previously, it was just allocated percentages so whatever the number was, everybody would get whatever percentage share.

Chair Acoba suggested amending the motion. Member Soon asked if they are going to entertain each amendment individually. Chair Acoba said he thought that's what they might do just to keep it orderly. Member Case amended the motion to prioritize under Part II, Section 2, (b): first, $82 million to TSF; second, $26.5 million to convention center enterprise special fund; and third, $3 million to the special land and development fund and the $1.5 million to Turtle Bay conservation easement special fund. The motion was seconded by Member Yamaki.

Chair Acoba asked whether the visa programs are still in effect (referring to the top of page 7). Member Case said within the investigative group, he did take a look at that and doesn't think it was extended. Chair Acoba said he thought there was something that said it expired. He asked if LRB can look into this.

Member Sako commented, referring to page 7, (B) (ii), the 0.5 percent of the $82 million, if it should be of the current year distribution because now it's going to keep increasing with the CPI and she knows it's the existing law. She's just not sure, if it stays like this, it will be forever 0.5 percent of the $82 million, it should be 0.5 percent of what the current year amount is. Member Yoneshige and Member Baz agreed. Member Baz said "of the $82,000,000" should be deleted. It should say, "0.5 per cent shall be transferred...." Member Yamaki stated maybe just capping at 0.5 percent. Member Sako said she doesn't know where all the money specifically goes. The 0.5 percent of $82 million, down the road, they will keep getting a smaller piece of it. Member Yoneshige said it doesn't fit with the way the $82 million was calculated. All that needs to happen is to strike "of the $82,000,000."

Member Evans asked Member Miyahira if he recalls this particular allocation related to the APEC security issues. Both Members Miyahira and Evans don't recall. If there was concern about paying for extra security for the APEC conference that took place a couple of years ago. Member Sako recalls they all had to increase their budgets. Member Evans stated it isn't worded specifically and it is in accordance with Hawai'i Tourism's strategic plan, which is being revised, so they will continue to have a strategic plan that will call for safety and security.

Chair Acoba asked for any other discussion on re-ordering the priority of distribution under Section 2 (b). It was unanimously carried to change the order of this section. However, Member Miyahira opposed the re-ordering and stated that the $1.5 million for debt service should be first; however, he's okay with the re-ordering. Chair Acoba stated it will be paid anyway. Member Miyahira said assuming that the revenues stay, the $82 million plus the $31 million.

Chair Acoba asked without having to take a vote for the Auditor's Office to ask LRB to check on whether the visa program provision is still appropriate. Member Sako made a motion to strike "of the $82,000,000." Member Evans added to Member Sako's motion that the dates "2005 – 2015" (page 7, line 15) also be deleted without adding a new date so it is in accordance with the Hawai'i Tourism strategic plan. Member Yoneshige seconded the motion.

Member Case stated he doesn't have any problems with the amendment itself but his second comment is that although they did not specifically discuss this issue, from a visitor industry perspective as well as his own perspective, he doesn't believe there should be statutory designations of the amounts set provided to the TSF. There are three of them in the statute right now on pages 7 and 8—$1 million to the Hawaiian center for music and dance; $1 million to the sub-account; then $5 million to the tourism emergency special fund and although each of them is allot able goal, there are probably a thousand more like it and what these provisions do in the legislation is to tempt the legislators and everyone else to essentially micro-manage how HTA spends their money. The whole idea here is to give HTA a guaranteed minimum amount they can spend as they see fit on tourism marketing. He objects on principle to the continued inclusion of the provisions of (B) and (C) but he will leave it to the working group if there is any consensus on that position but suspects not; so in that case, he would like to put his objections on the record and articulate that to the Legislature later but if the general approach is to retain these provisions, he has no objections to the amendment.

Member Sako wanted to make sure she understood what Member Case was saying—to take out the sub-paragraphs (A), (B), and (C) (starting on page 6, line 19 to page 7). He replied, yes. Member Hunt said he is concerned about removing it because this is going to be a difficult task in itself and we don't want to put additional roadblocks that may prevent the overall intent of the bill from passing. It could be addressed separately. Member Case said he is fine with his position being reflected in the minutes.

Chair Acoba called for a vote, all those in favor of the motion to strike the words, "of the $82,000,000" and "2005–2015" of Section 2 (B) and 3 (B) (ii). The motion was unanimously carried.

Member Soon referred to page 9, the "forty-five percent share shall be allocated as follows" and asked if this is a grammatical thing and was wondering if it should say, "shall be allocated to the counties and shall be distributed as follows." It was moved by Member Soon, seconded by Member Baz, and unanimously carried to add the language.

Member Soon referred to page 3, line 12, "maintained at their current levels" he would like to add, maintained at "no greater than" their current levels. He said they had talked about fixed costs gets depreciated over time and it would grow the State and county pots but the way it's worded right now, and maybe it says no greater than but it feels that they could in fact, increase the size of the any of those items and depreciate the size of the State's and county's shares. Member Baz stated in reading that, it's not "shall" but "should" which is very different in legal terms but in reading again, once the debts get paid off, the money is supposed to go back into the general pot and if we say it should be maintained at the current level, that means forever; theoretically, we could be paying those amounts. It does maintain the same amounts, we are always going to pay the $26.5 million and that could be a decision of the group. Member Hunt said the Convention Center is not just capital but it's also operational. It may grow over time; we just don't want it to go below.

Member Baz said he didn't have a problem with the language saying that it wouldn't be greater, especially with the sentence they added, "...with any additional state funding of these efforts made out of state general funds by separate appropriations." His concern is, once the money is paid off, what happens with the money, it is many, many years to come, but the language there is that it should be maintained.

Member Evans said since this is the findings section, and would defer this to the Auditor's Office. It won't be binding even if the bill is passing the exact same wording introduced by the Legislature. Member Soon said it will illustrate the intent. Member Evans said it does illustrate intent, which is her understanding. ASA Yamane said as part of legislative history, they will look to that type of language as intent. Member Case said he supports what Member Soon is saying that was always their discussions and he would want to see that interpreted later on when the bonds are fully amortized. For example, on the State, the Turtle Bay conservation easement special fund provision that somehow it continues.

Chair Acoba stated this would complicate matters. They will argue before the Legislature by saying, "no greater than." They are taking care of the upside by saying; you can't expand these funds except by additional appropriation from the State. The report says that when these things are paid off, it goes back into the general fund. He believes that maybe some of those things will never be paid off or might never be paid off. The Legislature can always change it like the enterprise special fund, it isn't always a continuing thing and also the special land and development fund. Do we want to go beyond what our mandate was and go into the purposes behind which these additional allocations our Legislature has already done and committed to. Then, it raises all these different issues. They are going to be arguing the merits of the convention center enterprise special fund when it really wasn't directly a part of their mandate. Member Miyahira said he would agree, this is the same rationale they didn't follow up with or what they had recommended. Member Soon said it's another legislative approach and that is, you throw a lot of things in and take some out. Chair Acoba said basically, you don't want any caps; you want a share of the good things. Member Soon said if it stays at that, it will never go down.

Member Soon said they did talk about it endlessly—who appropriates the money and where it should come from. He does see this add-on sentence, referring to page 3 (C), "with any additional state funding of these efforts made out of state general fund by separate appropriation;" nowhere else do they say that any further decisions by the State or county on expenditures should come from their pot. He thought that was a key part of their conversations and he would like to see that added back in as a separate section that says something to the effect of, "any future funding desired by the State or counties, whether or not it's for visitor industry purposes, the jurisdiction authorizing the program shall fund the program out of its own resources, including its remaining TAT allocation." It was a key part of their conversations.

Member Baz stated he would be cautious to add that kind of language because the counties do go to the State for appropriations for other purposes where it's a joint State-county function and that may be used against them in those requests. Member Soon said we find ourselves back though, without something to that effect, back in the situation, instead of a little sandbox that they were going to create, they got rid of the little sandbox because we were going to save by taking out of the TAT. Member Baz said if they restrict the State to that sandbox then, the counties will be restricted from that same sandbox. He knows Kaua'i County requests a lot of things from the State every year, he's not sure about Honolulu. Member Hunt said right now, it's more grant-in-aid. Member Baz stated going back to the original intent of them giving the counties TAT was to get rid of the grant-in-aid. Adding that kind of language in there again would get rid of the grant-in-aid. Member Hunt said the grant-in-aid is sometimes capital. Member Miyahira said most of it is general fund.

Chair Acoba referred to page 4, second line, and requested adding (s) to allocation. Referring to page 5, because there isn't any specific allocation of 55 percent to the State general fund, this in effect, takes care of it. Referring to (b), it says, "with any excess revenues to be deposited into the general fund" without any specific appropriations. Member Baz said the county language is pretty clear, "of the remaining revenues." Member Miyahira stated taxes and fees, unless it's specified to go to some specific use, it is all general fund receipts.

Member Yoneshige referred to page 6 (3), the adjustment on the CPI, the way he reads it is, they are going to use the CPI for all urban consumers for the calendar year 2016 minus out the same index for calendar year 2015 and multiplied against the $82 million for the amount in 2017. Member Hunt said typically, the CPI-U comes out from the Bureau of Labor and Statistics around the first or second week of February for the annual but they do have semi-annual updates as well. Honolulu is the only metropolitan area that they studied. They used to have a tax cap affixed to that, but it does give the percent change on an annual basis or percent change between the semi-annual basis, depending on the timing, you could use either one of those but they should be specific on which one they will use. Member Baz said he read this and is confused about it so he's assuming that LRB knew what they were writing.

Mr. Kirkpatrick stated the first calendar year in which the new system goes in is fiscal year 2017. Member Yoneshige said it is fiscal year 2018 because if the bill goes into effect fiscal year 2017 then the $82 million will be the start which they agreed to and then in fiscal year 2018 is when the adjustment occurs. Mr. Kirkpatrick said he thought it would start fiscal year 2017 in which case the base year would be calendar year 2015. Member Sako said fiscal year 2017 is the first year it is effective so they are okay with the $82 million. Mr. Kirkpatrick said when they had set up the models is when the CPI increased starting in fiscal year 2017. Member Hunt said he would use the February 2016 data to adjust the $82 million for fiscal year's 2017 budget based on the $82 million plus 2 percent or whichever. Mr. Kirkpatrick said it should start "beginning July 1, 2016," on line 8, and "calendar year 2015" at the end of that paragraph, line 17.

Member Yoneshige suggested they should make the bill in the same concept as the report. If the report 2016 was flat at $82 million then 2017 will need the adjustment. He would like to make a motion to amend Section 2 (b) (3) that the date be "July 1, 2016" instead of "July 1, 2017." Chair Acoba asked about the calendar year at the bottom, should it be 2015. Member Yoneshige said it should be 2015. Member Soon asked if they want the exact year in there or is the exact year going to be fixed. Member Yoneshige said this is just to start because it says "beginning," beginning from that year is when they start using the CPI adjustment. It was moved by Member Yoneshige, seconded by Member Baz, and unanimously carried to amend Section 2(b) (3) as stated above. Member Hunt said also on page 6, although it is rare, there has been negative CPI-U as the language. It talks about "exceeds the CPI," is that strong enough, what if you get a negative 2 percent, does that reduce it below, they talked about a floor of $82 million, we don't want it to go ever below that but they didn't include that. Member Baz said that would limit it only to positive movements on the floor.

Member Miyahira wanted to be clear that the bill takes effect July 1, 2016, we may need to lag it so you have a number, you need to take the index going one year back so that you'll have a known number because his department (Budget and Finance) has to do the allocations. Member Yoneshige said the first index would be calendar year 2014-2015 and calendar year 2015 data would be available February or March of 2016. Then you multiply that in from July 1, 2016. When the budget for 2018 is prepared, the amount increased in the $82 million would not be known until August or September. Member Miyahira stated all this does is to put the money into the TSF. The appropriations are the one that allows them to spend the money. So, it may not be the same thing. Just so people understand, this only puts money into the fund.

Member Sako asked when LRB drafted, were they thinking the biennium budget was this year's budget. ASA Yamane answered that LRB tried to follow whatever the report was saying. Member Sako stated it would make sense if they left it at July 1, 2017 to make it go into effect the following biennium. Member Case stated from an industry perspective, they liked the proposed fix. Member Yoneshige said the report has the forecast starting at 2016. The amendment sinks the bill, the projection. Member Case said they go all the way back through a whole supplemental appropriation. Member Sako said she just wanted to make sure because they ran into that DLNR problem where they had the money and they couldn't spend it and so she didn't want the same thing to happen.

Chair Acoba stated we're assuming the bill will take effect July 1, 2016. Member Yoneshige said yes. Member Hunt stated it can go down but it cannot go below the base of $82 million. Member Yoneshge said because we are only looking at a comparison of two years, if you have a multi-year slide, you can go below. He takes that back, it cannot happen because you cannot go negative. He was thinking, if you have a multi-year decline, you might have a comparison in the index but you can never have a negative factor against the $82 million. Member Hunt said if you go $82, $85, $86, $83 million can happen but you can't go below $82 million. Member Yoneshige stated if you're at $86 million, you cannot go to $83 million because you can never have a negative index, it will always be the same, If it's negative, it's 0 so it will stay at $86 million; the index will keep falling but because it has to exceed the previous year, it will just stay flat.

Member Case stated for LRB, do they need a base year, CPI-U stands for... standard base, $82 million, $84 million. Mr. Kirkpatrick answered no, because it's an index. Member Case asked you don't have to reference a base year and Mr. Kirkpatrick said no.

b. Draft slides/presentation for legislative briefings (handout) - Discussion

Referring to the draft slides, Member Case asked if this is a presentation to the Legislature. Mr. Kirkpatrick said yes if there is a briefing. The Auditor's Office has already given him reminders of spacing and additional slides so it can be read from a distance. Chair Acoba asked if there is commentary accompanying these slides. Mr. Kirkpatrick said if he's the one presenting, he has some notes, very simple notes that don't go beyond what they have said. For example, when they get to expenditures on public service, they would say, the Comprehensive Annual Financial Reports (CAFR) are standardized documents and maybe a little more explanatory but nothing beyond that.

Referring to page 2, first slide, Chair Acoba commented instead of "Examine," the exact word was "Evaluate" and if it's okay to change that. Referring to the second slide, "Members understand concerns of" suggested using the word "represent" or some other word be appropriate. Mr. Kirkpatrick replied, "represent" means who is naming the representative, he was trying to avoid using "represent." Member Yoneshige suggested using "Members from" because the purpose of this slide is just to show the representation. Member Baz suggested, "Members included." Member Yamaki asked if it's "Members are from." ASA Yamane said you would want it completely neutral. It was decided to use "Members from."

Referring to page 4, Current Distribution, Member Yamaki said there is a space in between FY 2016 but no space for FY2015. Member Miyahira suggested having the numbers line up. Chair Acoba said to be consistent with the way they set up the model and the discussions if they can order the items, start with Tourism Special Fund, Convention Center, Turtle Bay, Counties, and State General Fund.

Chair Acoba asked a question on "Primary Government Activities" if it was used in terms from index 12. Mr. Kirkpatrick replied the term came from the CAFR report.

Referring to page 5, State's and counties' share of expenditures. Mr. Kirkpatrick said the slide was made from the table in the report which reflected in part of the discussion through different things from the State and county investigative groups. He looked at different ways to order them, change 1-9 and to make it clearer but wasn't able to finish it just yet. His suggestion is the revision of this would have little bar graphs—State's share, counties' share, and it won't have the same listings as 1-9; he will do all the totals; gross, net, and tourism-related just to make it a little clearer. He is trying to keep it as one slide. Any way to solve this would be appreciated.

Member Yoneshige suggested to take out that slide. The presentation to the Legislature is, what is the charter, process, what options were looked at, and what is the recommendation and why. There's a lot of numbers in this and what value does this have. The key is that they had the three investigative groups had looked at different facets—CAFR information; defined what is tourism-related expenditures; 55/45 formula which was an output of discussions. With all these numbers, he doesn't want to see people delving into every single line. It will divert from the actual work that was done by the working group and the agreements that were made. Member Sako said she agrees with Member Yoneshige. Chair Acoba asked if it is in the report. We can do both, a master slide and sub-slides which will focus in on different things if we need to. He wanted to confirm with Member Yoneshige that he came up with the 60/40 idea. The 60/40 was derived from looking at the county and State investigative groups, allocation of government expenditures, it was not on tourism weighted expenditures. Member Yoneshige said the 60/40 was an average between two extremes. It was not one analysis of the 60/40—one was 50/50, and another 70/30, but because of the push they used directly related, indirectly related, etc., broad CAFR categories, somewhere in between is where the answer lay. Member Sako wanted to clarify, lines 2 and 3 were the investigative groups and that's where Member Yoneshige is referring to. Chair Acoba said he wanted to confirm, but that figure wasn't tourism weighted at that point. Member Yoneshige said it was tourism-related CAFR expenditures, but very broad categories.

Member Baz suggested getting rid of both slides on page 5. Member Evans agreed. Member Baz said if it confuses things, then they are going to want to dig through all these numbers. Chair Acoba said it all went into the mix because he thought this is how the conversation went. He said Member Yoneshige came up with the idea of the 60/40 as something within the range of what the county investigative group came up with and when this table came up, which is from the consultant, if you read the consultant's report, it does say that they looked at this and they put their own gloss on it—7, 8, and 9 are actually their work, new analysis of CAFR. They put a gloss on, even on what the State and County investigative groups did. When they came to 55/45, they said it was a judgment-based number based on looking at all these different indices because it's difficult to justify 55/45. The consultants said they didn't want to tie the figure to any one specific index. The 55/45 is a judgment-based on looking at all these indices. They took into consideration total expenditures, expenditures that were weighted toward tourism, etc. So, we have the outer limits but looking at these figures, it helps to justify 55/45 because it's similar to 3, 6, 7, and 9. The allocation is based upon a judgment looking at all these figures and coming up with what we think is within the range of all these figures. Mr. Kirkpatrick said it's in the slide on the top of page 6.

Member Baz said the report shows the details and this presentation is basically to present our findings. When they made the decision to choose the 55/45, it was based on specifically the 54/46 gross expenditures of primary government activities and that was based on their charge to review this with the intent of the provision of public services. It can be very defensible to say that's the one we chose because of the charge the Legislature had given the working group. If it wasn't the charge that the Legislature gave them, the counties would have been fighting harder for #6 instead of #7.

Chair Acoba said that is why he asked Member Yoneshige, it wasn't tourism-weighted, and he said yes. But Member Baz is arguing that we should take into consideration items that are tourism-related. Member Baz said to Chair Acoba that he made that argument very clear at the very beginning of this working group that it should be based on everything. Chair Acoba said he did but the working group went off on a different path; they didn't follow that path because everybody wanted to tie it to TAT and tourism so that's why they went down that path and he remembers it a little differently but Member Yoneshige said it is tourism-related. In the minutes of the last meeting you said and they all agreed they should take out the reference to tourism-based and you said it should be public service. They should also note that in the Executive Summary it retains that tourism-related language but took it out in the rest of the draft. The consultants said not to tie it to one index—doesn't think that is wise—they should tie to other indices.

Member Baz said that's why if they delete both slides on page 5 then it is clearer; it makes it so that they cannot make an assumption that they tied it to one specific index. Chair Acoba said the question will come up and the report does say judgment-based taking into consideration all these indices. We would have to explain it and this helps to explain it.

Member Yoneshige referred to the second slide on page 5 and looking at how the PowerPoint was set up, the charge from the Legislature, the composition of the working group, and the process, the process was to look at the history of the TAT and analysis of expenditure and allocation models, when looking at the slides, it jumps from the description of the expenditures to the development of the model. The process in between that they went through with the working group, the discussion, looking at three different allocation models, that was integral part in the development of the recommendation because there were different numbers that were coming through, there were different allocation models but the discussion that took place over a period of two to three months became the foundation how they agreed upon the 55/45, looking at the models and how they set forth the allocations of the TAT. It needs to be captured in the slides that they had these investigative groups and they looked at the expenditures.

Chair Acoba said what he's saying, without these slides, it's almost where they come from, we went through this whole process and we came up with this number. The 55/45 seems like a fairly specific number and we need some kind of backup looking at some objective. Member Soon stated whatever will help the Chair defend the 55/45. Chair Acoba is trying to figure out how they are going to respond to 55/45. He can say, they worked really hard and to come within a range of reason, they have some objective basis and thinks it's just helpful. He knows they are trying to make it as simple as possible but he's just leery that it's not that simple.

Member Soon said what he's not okay with is if the Chair talks about 60/40. The 60/40 was a more "worry" number than specific. On their side, where the money for convention center, etc., where it was coming from, it becomes a very complex conversation. Member Sako said if we are trying to show them how we got there, the chart would be less confusing unless garbled, if they only included lines 2, 3, and 7 which were the lines they focused on to get them there. Member Miyahira suggested a slide before that one that covers some of the background Member Yoneshige talked about then you could lead into what it came down to.

Member Yoneshige said maybe flip the slides on page 5, put the Expenditure slide first and the chart below. It talks about what the investigative committees did, some of the numbers that came out and then developed a recommended model. Member Evans suggested the title for the bottom slide doesn't have to be "What Expenditures are Tourism-related?" It could be, "The Investigative Group Process." Member Yoneshige agreed.

Member Hunt referred to the slide on the top of page 5, and asked would the members be opposed to including what they looked at, maybe instead of numbers, use bullet points, remove the percentages and say, these are the things we considered and subsequent to that, add a slide that says, these are the areas we focused on and show the percentages there. The report will still have all this information in the back but we're not exposing all the wide variations of percentages and just focus on the ones we think was the germane of what the decisions were. Member Sako asked if they were to add percentages to a slide at the top of page 6. Member Hunt said yes. Chair Acoba said if it's in the report, it's in the report. He said including the outer parameters adds credibility;

it acknowledges that they did look at it; most of figures collate in a certain range and that's the range they picked. If we went to the Legislature and were asked to justify their number, how would they justify it. He feels they have gone one step further, they looked at different expenditures, etc., because that was Member Yoneshige's comment, he thought he said that he liked this because it was confirmed by a third party, the basic 60/40 split. It's much easier to get across.

Member Yoneshige said one of the benefits of putting the percentages in there is to demonstrate that the range of the State's share could have gone from 46 percent to 81 percent; the county share, from 17 percent to 54 percent. Using the data from the investigative groups, the consultants, and looking at the models that were put forth based on the allocation models that were brought up. This is what the committee came up with. This is why he sees how the numbers fit and how it can be explained.

Mr. Kirkpatrick wanted to express a few things: 1) The order 1-9, is the order that came up before them that was relevant to the group and would suggest he re-order them in a way that's more hierarchal; 2) he would suggest replacing the numbers or set aside the numbers, bar charts with State's share and counties' share; and 3) he will keep working on this and re-work it to what the Chair wants for the official slides.

Member Evans said she has a strong suggestion, and that is, the bottom slide, referring to page 5, be titled, "The Investigative Group Process." And Member Baz suggested moving it to the top of page 5.

Member Soon stated he doesn't agree with Mr. Kirkpatrick's suggestion. It should be just the way it is. Member Sako said she doesn't like the bar graph either, it will just make it too complicated. Member Yoneshige stated the purpose of the briefing is to show the range and items considered.

Member Case wanted to pick up from Member Soon's comments on the 60/40, 55/45, he thought they converged on 60/40 and then deducted out the specific allocations to converge on 55/45 so he thinks there's a step missing there. He thinks that was the discussion they just had which was how to justify the 60/40 total. Member Soon said he doesn't think Member Case should go there because they are going to get stuck on the 60/40 and the number you want them to get stuck on is the 55/45. Member Case said it's 55/45 after the allocation, it was a county issue and he's not vested in how it gets expressed but you cannot just skip the 55/45. Member Soon said the 55/45 comes out of these numbers.

Member Yoneshige referred to the top slide on page 6, he suggested removing "Members converged on 55/45 distribution as equitable, reflecting duties and responsibilities for public services." Because during the development of the recommended model, they took upon the three bullets; agreement on the approach and on the top slide of 7, is where they came up with the two recommended models.

Member Yamaki referred to the second slide on page 6, Agreement on Approach, she suggested putting in parenthesis (TSF) so people will know what TSF is. In social media, it has a totally different meaning. Member Sako said it's a good policy to define it just as most of our reports are anyway.

Chair Acoba referred to the second slide on page 6, the bullet, "Principles: TAT allocation strategy should be:" he asked if it should be "model" instead of "strategy." He also suggested using another word instead of "simple." Further, "Resilient in changing" should be "Resilient to changing."

Member Yoneshige referred to page 7, top slide and asked why is it CPI-U versus just CPI. Mr. Kirkpatrick said it's because it's urban consumers. Chair Acoba referred to the bullet, "Remainder to State and counties' general funds – do the counties have general funds? Several members said yes they do. Leave this as is. Member Sako suggested to capitalize counties to make it same as the State.

Referring to page 9, top slide, Mr. Kirkpatrick explained the reason for the two fonts was to have a consideration and then a comment. Member Baz suggested using the same font but italicizing one of them. Mr. Kirkpatrick said okay. Chair Acoba asked if EUTF needs to be included. Mr. Kirkpatrick said the statement is, when they took it into consideration and recognized it as a non-issue. Otherwise, whoever was responsible may feel it should be included. Member Sako doesn't think they need it. Chair Acoba suggested taking out the reference to EUTF.

Member Case said the order is a little off; TSF first, existing obligations and then, TAT residual allocations or remaining allocations. Chair Acoba said he doesn't think the State has the largest share. Member Sako asked to have the order repeated. Mr. Kirkpatrick repeated the order: 1) Recommended model works for key stakeholders in both good times and bad times; 2) TSF is protected when marketing needed; 3) payment of existing obligations continues; 4) TAT remaining allocation is 55 percent to State, 45 percent to Counties; and 5) Local communities and visitor industry share benefits (police, lifeguards, park upkeep).

Member Evans suggested bullet 5, Local communities... should go first. Knowing the audience, they would care most about the impact of this recommendation on local communities and visitor industry share benefits.

Chair Acoba wanted to comment on the Executive Summary, it still says, "While no one analysis provided the definitive answer to the Legislature's question, the Working Group found that the key responsibilities of the State and the counties for tourism-related public services. " He believes they took that out in the rest of the report. Maybe it should read, "The State and counties were distributed in 55/45 percent." Mr. Kirkpatrick verified taking out "tourism-related public services." Chair Acoba said because we already say key responsibilities of the State and counties.

Referring to the draft testimony (handout), Chair Acoba asked about addressing the Legislature. ASA Yamane said it may change depending on the committee presenting to. Member Baz said generally testimonies start off with, we stand here in support of ..., in opposition to ...., would that be modified based on the bill being presented. ASA Yamane replied, that is correct. She said they talked a little bit about it before the meeting about the differences between briefings and testimonies. If they are asked to brief on the working group report, then typically, the committees will send out a briefing notice and they will be invited to present. It would probably be a joint briefing with Senate Ways and Means (WAM) and House Finance committees. In this case then, it wouldn't be a statement of support or comment. Member Baz said he understands but referring to this testimony, this will be testimony at presentation of bills for discussion. ASA Yamane said yes, that will be a moving target because it depends upon the measures introduced. Member Baz said this can be the generic template, in support or opposed, against, or in favor of. ASA Yamane stated in some cases, it may be in general support but we have the following amendments, etc.

Member Hunt referred to page 2 of the testimony, last sentence, it leaves out consideration for existing debt and current and future allocations to TSF. Where it says,

> "Based on the study, the working group determined that an appropriate allocation of TAT revenues between the State and counties should be based on a ratio of 55 percent for the State general fund and 45 percent for the counties; somewhere between the State and counties, putting in a comma after considering the existing obligations of the State and current and future allocations to the TSF. The 55/45 is really the net of the remainder. It should read, "Between the State and counties, after considering the existing obligations of the State and the current and future appropriations to the TSF."
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> Member Case referred to Recommendation A where it says, "The Tourism Special Fund will receive $82 million," he would like that to say, "From the TAT." The whole concept there is that for the four priority items, they can always go and ask for additional moneys and he thinks the HTA will ask for additional moneys. He can see the Legislature saying, you got your $82 million so nothing more. Chair Acoba asked if FY2015 and FY2016 are still correct. Mr. Kirkpatrick replied we're in the current FY2016.

Chair Acoba asked ASA Yamane about the December 16th meeting and what the group will be accomplishing for that meeting. ASA Yamane stated the concern she has is the draft bill. There have been substantial amendments to the draft bill and we will need to inform LRB so that they can amend the draft bill. She's not sure if the group needs to see it again. Member Baz recommended they not review the bill again so long as the changes can be made. ASA Yamane said it will be introduced like that, when it gets heard, there will be ample opportunity to testify. It's up to the group what they want to do with the amendments to the bill.

Mr. Kirkpatrick stated the version of Chapter 4 of the report will basically have the legislation as revised today. ASA Yamane said yes. He said they will need to put it in Word version. ASA Yamane said typically, we use the LRB version as opposed to the office preparing the document because we don't draft our own.

Chair Acoba asked if the report will be done by December 16th. ASA Yamane said the only piece we are waiting for is the legislation. Chair Acoba asked will December 16th be spent going through the report. ASA Yamane doesn't think we need the meeting if we're going to delegate the legislation to the Chair for review unless anyone has a desire to meet. She said the Auditor's Office can finalize any technical amendments with the Belt Collins team and work with the Chair on the draft legislation.

Chair Acoba stated there were a few substantial changes to the report. Mr. Kirkpatrick said those were reviewed at the last meeting. Member Sako said the report hasn't been re-circulated. So at some point, will they all get a final copy or draft? ASA Yamane said we typically have hard copies and electronic post and then we would ensure members get copies as well. We usually have a staggered delivery, the Legislature will get it the first day, then it goes public the second day.

Member Baz asked if the group is having a meeting the first week of January. At that point the group could get their copy of the report. ASA Yamane stated the working group is intended to stay alive through legislative session. It's up to the group how often they want to meet, whether it's driven by legislation or whether the group needs consensus on certain matters. We won't know the amount of bills until after bill introduction. Opening day of the Legislature is January 20, 2016. Usually we have a heads up on the flow of bills, we'll have a pretty good idea of what kinds of TAT bill there will be. There were a lot of TAT bills last year.

Member Evans asked if the counties know when their presentations to WAM and Finance committees are, the dates scheduled in January. Member Baz said typically, it is a few days before the opening day of the Legislature. Member Baz suggest a meeting for January 6, 2016, get a copy of the report at that time and for the February 3rd meeting is when we will have had time to capture all the bills, see which ones are a threat to our legislation or in support of, and maybe make decisions on whether or not they will oppose certain bills, generally support, or whatever they decide to do. ASA Yamane said we may want to look at when the legislative schedules come out, depending on the timing of lateral, cross, etc. There's no point in meeting directly after, the day before cross is too late. Member Baz said he thought February 3rd will be early enough.

Member Soon asked if the group is planning to do a presentation to the Tourism and Finance Committees. Chair Acoba asked ASA Yamane if they should visit ahead of time. ASA Yamane stated they probably should, just to put it in their heads; she would also expect that this is something heavy on the mayors' wish list. She would expect the mayors will want to say something. Her hope is that if there is a briefing scheduled on the report, it is a great opportunity for WAM and Finance.

Member Soon asked if the Chair needs any of them to come with him to illustrate support and Chair Acoba said that is fine with him.

Member Case referred back to the December 16th meeting and asked if the group needs a final vote on the report. ASA Yamane said we scheduled that meeting in case there were any technical changes to the draft legislation. Although the WG approved amendments made to the draft report at its November 12, 2015 meeting, Chair Acoba requested a motion to approve the draft report with all of the amendments. It was moved by Member Soon, seconded by Member Yoneshige, and unanimously carried to approve the draft report and amendments.

Member Yamaki asked has there been any discussion about the group doing a presentation or informational briefing to the Legislature. ASA Yamane said the office doesn't set the briefings. The office waits for a cue from whichever committee it will be; because of the subject, it could be a joint House and Senate tourism committees and money committees.

Chair Acoba wanted to thank the group for being able to reach an agreement. He doesn't know how the legislative process will turn out but he feels that they all did their jobs, came through with their recommendation, and feels they did succeed.

V. Adjournment: With no further business to discuss, Chair Acoba adjourned the meeting at 11:49 a.m.

Reviewed and approved by:

Jan K. Yamane

Jan K. Yamane
Acting State Auditor

[ ] Approved as circulated.

TATWG/20151202