

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, May 6, 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
Steven Hunt, County of Kaua'i Appointment
George Kam, Senate Appointment
Deanna Sako, County of Hawai'i Appointment
Ray Soon, City and County of Honolulu Appointment
Jesse Souki, Governor Appointment
George Sziget, House Appointment
Kerry Yoneshige, Governor Appointment

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

Jim Howe, City and County of Honolulu, Emergency Services Department

Excused: Neal Miyahira, Governor Appointment
Ronald Williams, Senate Appointment

- I. Call to Order: Chair Acoba called the meeting to order at 10:00 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

Jim Howe, City and County of Honolulu, Emergency Services Department, Ocean Safety Division and as a private citizen represented the interest of beach lifeguards on the TAT. He stated that looking back at the original resolution, police and fire were specifically mentioned as services provided to visitors for the State through the TAT. However, he did not see any mention of ocean safety or paramedic services which are state funded versus county funded. He also did not see any mention of beaches which covers ocean safety services. He explained that he is a part of the Injury Prevention Advisory Committee with the Department of Health, and drowning is a significant issue and the leading cause of visitor death in the State. He stated that there is a five-year state health plan and one of the initiatives specifically addresses the issue of drowning, particularly of visitors. He also stated that there is a direct relationship between the number of visitors and the number of deaths related to

ocean drowning. Drowning is also the fourth leading cause of death for residents. Another trend is visitor arrivals and the need to increase visitor arrivals. In particular, moving visitor arrivals from O'ahu (where it's reaching capacity) to the neighbor islands where there's excess capacity for visitors. However, a concern is the level of public safety services that are available to the community on the neighbor islands that are not nearly as robust as those available in the City and County of Honolulu. He stated that there are about 120 lifeguards at the beaches every day on O'ahu and this cannot be done on the neighbor islands. Therefore, the drowning rates on the neighbor islands are significantly higher per 100,000 than the drowning rates on O'ahu. He stated that the neighbor islands do not have the financial capacity to put public safety services on the beaches. He also wanted to bring this issue up as it is part of the mix for the TAT. He also stated that lifeguards are the counties' responsibility. On the Big Island and Kaua'i, lifeguards are housed within the fire department; Maui lifeguards are housed within the parks; and O'ahu lifeguards are within the City and County of Honolulu, Emergency Services Department.

Member Case stated that the charge for the WG is to recommend to the Legislature thoughts on the division of duties and responsibilities between the State and counties and the allocation of the TAT. He asked Mr. Howe for his thoughts of the current system of ocean safety and whether it should be changed from county focus to State focus and how it should be funded. Should there be a direct fund or funding from the TAT as a visitor nexus, assuming that ocean safety is not funded adequately.

Mr. Howe stated that every day on O'ahu, there are about 200,000 visitors and about 1 million residents. All the visitors are here for vacation. Based on demographic groups, we know around 67-96 percent of visitors are going to the beaches and participating in ocean recreation. He explained that approximately 50 percent of his budget is dedicated to servicing visitors. The budget comes from City and County of Honolulu property taxes from residents and this goes to the TAT charge. He further explained that when the State capped the TAT, there was a squeeze on some of these services. The City and County of Honolulu didn't have the money to meet the demands of the service. He stated to answer Member Case's question, there is a nexus between the number of visitors here and the level of services we as a state would like to provide for the visitor safety as part of their Hawai'i experience. Part of that experience is the beaches and the ocean recreation activities. He also stated that they provide services for one state beach park on O'ahu, Keawaula (Yokohama beach), through a contract with State parks. There is \$1 million annually in the State parks' budget for contracting county lifeguard services at State beach parks. The funding amount is pretty fixed and has not changed in the last 10 years. There are 186 beaches on this island and he is able to provide lifeguard towers at only 40 beaches. The rest of the services are driven by 9-1-1 calls through mobile response dispatch.

Chair Acoba stated some of the communications informing visitors that if they are going to the beach, these are some beaches you should be aware of, could go through hotels or the visitor industry. He mentioned his personal experiences as a trial and appellate judge in which he handled and reviewed some drowning cases. He explained that because of the liability issues, the State enacted immunity statutes that preclude liability. He said putting up warning signs simply doesn't work. There should be communication with those who have contact with the tourists.

Member Szigeti suggested communicating to the airlines and stakeholders to educate visitors about beaches with no lifeguards and undertows. Member Baz said for Maui, they produced a video and tried to get it to the airlines but the airlines refused; so it's shown at the baggage claim area at the airport.

Mr. Howe said he has worked with the Hawai'i Tourism Authority (HTA) for a number of years on this issue. HTA has assisted with funding for many of the initiatives, including education, that are in place today. He said he would be happy to provide any assistance the WG needs as it moves forward.

Member Yoneshige arrived at 10:09 a.m.

III. Chair's Report

a. Announcements, introductions, correspondence, and additional information

The Chair congratulated Member Szigeti on his appointment as the new president and chief executive officer of HTA. Member Szigeti's appointment is pending HTA's board approval.

b. Minutes of April 1, 2015 meeting

It was moved by Member Hunt, seconded by Member Evans, and unanimously carried to approve the minutes of the April 1, 2015 meeting.

c. Legislation – Discussion of TAT and SCFWG bills and testimony (handout)

ASA Yamane summarized the following handouts:

1. List of TAT measures dead/alive (handout)

ASA Yamane reported one amendment on the handout; House Bill No. (HB) 716 is dead. The bills that passed final reading are:

- HB 169 changes the TAT rate on timeshares;
- HB 444 includes \$3 million to DLNR;
- HB 1214 is the budget bill for the SCFWG; and
- Senate Bill No. 284 relates to the Turtle Bay transaction.

ASA Yamane stated that these bills may become important to the WG because they impact TAT distribution. She stated that HB 1214, which is the WG's budget bill, included \$15,000 for expenses and \$150,000 for consultant services. However, she explained that the way it is funded is not from the general fund. The \$165,000 will come from the counties' portion of the TAT. This measure has been transmitted to the governor for approval.

2. List of testimonies presented to the Legislature relating to the SCFWG (handout)

ASA Yamane thanked Chair Acoba who attended most of the hearings and the staff for all their help. The second page of the handout is a list of approximately 30 testimonies that the WG put forward during the legislative session. The Chair also thanked ASA Yamane and everyone else for tracking all the bills. ASA Yamane stated that once we get the final list, we will compose a handout of what is coming out of the TAT as of July 1, 2015.

IV. Consultant Services – RFP

ASA Yamane reported that when HB 1214 passed final reading, the Office of the Auditor floated the RFP on May 1, 2015. The RFP has a 30-day call-back date of June 1, 2015. The RFP refers to the tax information submitted during the discussion at the April 1, 2015 meeting.

Member Souki arrived at 10:28 a.m.

V. Investigative Groups – Status and discussion

- a. County Duties and Responsibilities Investigative Group – Discuss progress and draft spreadsheet (handout)

Member Hunt reported the counties did not have an official meeting but did go through a line item by line item budget and tried to identify total costs and those with nexus to the visitor industry. The group prepared a draft summary spreadsheet and a detailed list of line items.

Referring to the investigative group's draft summary spreadsheet, Member Hunt explained the following:

- 1) Visitor/Resident Ratio - The first row shows the counties and the percentage of visitors relative to residents ratio, which are:

City and County - 8.90 percent
Maui - 25.28 percent
Hawai'i - 13.29 percent
Kaua'i - 25.13 percent

To arrive at the percentages above, the investigative group used HTA information provided by Member Case at a previous meeting. They calculated the visitor days divided by 365. They then converted that to a person per day ratio and compared it to the total population count.

- 2) Total expenditures by counties - The first column in each county is the total expenditures by line item. The line item details are included in the second handout. The following are the total expenditures for each county:

City and County - \$2,004,574,421
Maui - \$337,646,362
Hawai'i - \$386,564,579
Kaua'i - \$157,769,811

- 3) Total expenditures with nexus to visitors – The second column in each county is the total expenditures by line item with nexus to visitors. The following are the total of expenditures with nexus to visitors for each county:

City and County - \$115,670,580
Maui - \$51,937,649
Hawai'i - \$30,888,669
Kaua'i - \$30,076,408

We determined the amount of each counties' budget line item with a nexus to visitors. The detailed items listed on the second handout identify the nexus as high, moderate, low, or no nexus. The following percentages were applied to the visitor/resident ratio percentage: high – 100 percent; moderate – 50 percent; and low – 25 percent. Member Hunt explained for example: visitors using the roads are equal to residents; therefore the nexus is high. The City and County of Honolulu would take its roads budget (highways and streets) \$23,187,649 and

apply (100%) of the 8.90 percent (visitor/resident ratio) to that line item to come up with an estimated cost of the operating budget devoted to visitors, which is \$2,063,701.

Member Hunt further explained the following percentages at the bottom of the summary spreadsheet:

- 1) Visitor to Total Expenditures – The percentages are calculated by dividing the total operating expenses relating to visitors (second column) by the expenses (first column) for all counties.

City and County - 5.77 percent
Maui - 15.38 percent
Hawai'i - 7.99 percent
Kaua'i - 19.06 percent
- 2) Total Expenditures Statewide – The percentages are calculated by dividing each counties' total operating expenses (first column) by the total of operating expenditures for all counties combined, which equals to \$2,886,555,173.

City and County - 69.45 percent
Maui - 11.70 percent
Hawai'i - 13.39 percent
Kaua'i - 5.47 percent
- 3) Visitor Expenditures Statewide – The percentages are calculated by dividing each counties' total operating expenses (second column) by the total of operating expenditures for all counties combined, which equals to \$228,573,306.

City and County - 50.61 percent
Maui - 22.72 percent
Hawai'i - 13.51 percent
Kaua'i - 13.16 percent
- 4) TAT Allocation (uncapped) – The listed percentages are from the statute and reflect the allocations for the counties.

City and County - 44.10 percent
Maui - 22.80 percent
Hawai'i - 18.60 percent
Kaua'i - 14.50 percent

Member Hunt stated that these relative metrics are where moneys are being spent; how it's being spent; and how it impacts each of the counties' budgets independently.

Member Evans suggested to Member Hunt that the "Visitor Expenditures Statewide" could be changed to "County Expenditures on Visitors Statewide" because *visitor expenditures* is a term of art that relates to how much visitors spend per day. Chair Acoba also suggested that "Total Expenditures Statewide" be changed to "Total County Expenditures Statewide."

Chair Acoba asked Member Hunt to explain how he got the visitor/resident ratio. Member Hunt said the visitor/resident ratio information was provided by Member Case at a previous meeting that gave the number of visitor days and dividing the visitor days by

365 and converting it to the visitor being on island 100 percent of those days. The visitor days was divided by 365 for each of the counties and converted to a de-facto resident.

Chair Acoba also asked whether the \$93 million capped amount covers the counties' costs. Member Hunt answered if you look at the City and County of Honolulu alone, its cost is \$115 million. He said the answer is "no" but the counties are also generating real property taxes and hotels and resorts are paying revenues into county structures. He also said we are not trying to do reimbursements but we are identifying the expenditures. He further explained that the group looked at the CAFR expenditures as to what can be expended and what can be allocated and also tying the services being provided by the counties to the visitors with various levels of nexus—high, medium, and low.

Chair Acoba asked if the difference will be made up from real property tax expenditures for the counties. Member Hunt stated it's all essentially a pot. He said we are not directly allocating the TAT dollars to visitor expenditures; a portion of it is going into the pot of available general funds to spend.

Chair Acoba also asked Member Hunt how would the present TAT bill be amended and what effect would that have such as the \$115 million that is directly attributable to visitors. Member Hunt said it's being allocated. They have tried to tie the relationship of those services being provided divided by the counties to the visitors with various levels of nexus.

Member Sako stated a couple years ago, there was another TAT work group and they did some allocation and what the direct costs were but not every county keeps the same statistics. She said the best solution was to use the high, medium, and low nexus to visitors to come up with something comparative among the counties and then compare it to the State to get the breakdown of the TAT.

Member Soon suggested to Member Hunt to add another column on the summary spreadsheet that has the totals for all four counties put together because the dispute is not between the counties. Member Sako also suggested comparing it to how much the State spends on visitors to see what the allocations should be because the counties do have some user fees, such as camping permits and real property taxes.

Member Hunt stated at the last meeting, the WG discussed looking at the expenditures and revenues. He said taxes are the largest source of revenue for the counties. Chair Acoba asked what propositions can be derived from this data and what are the consequences. Member Hunt stated the data helps to develop some level field of comparison. He explained that the State has a much more difficult time going through this exercise on a line item by line item basis and identifying visitor-related expenditures or nexus to visitors because of the volume of the State budget. He said by looking at the different line items on the second handout; within some of the line items, even though allocating the percent on a de-facto resident type of relationship in the line items may actually be higher—100 percent may be spent on activities or in the case of emergency rescues, it may be a much higher percent, etc. The counties would like to see similar data from the State so it can be compared; how much of the budget is related to visitors and look at that nexus. Member Sako stated this data shows the counties are spending more than the \$103 million that the counties receive.

ASA Yamane requested that the investigative group finalize the columns and numbers before the next meeting. Then at the next meeting, the WG can approve the counties' final report. Chair Acoba suggested adding text to the methodologies, as well as adding sources to these figures and concluding statements.

Chair Acoba further asked about the percentages listed under “TAT Allocation (uncapped)” of the summary spreadsheet. He asked if it was to derive some relationship between what the TAT allocation is as stated in the legislative history versus what the group comes up with. Member Hunt stated that the percentages are from the statute and he included it because it was the benchmark of where we are today—if the cap was lifted, this is where we would return to.

ASA Yamane asked the group to refer to the investigative group worksheet. The worksheet applies to all investigative groups and will guide your investigative group’s final report.

Member Case stated the idea of trying to be on the same page in terms of the allocation of the general expenditure categories for the counties and the State is really good and effective. He said, however, trying to come up with a standard allocation of the tourism part of the expenditures is also very effective. This definitely shows exactly what Member Sako said that the counties are spending more than what they’re getting and it’s a pretty effective conclusion. Member Case also pointed out why the City and County of Honolulu ends up so low relative to Maui, Hawai’i, and Kaua’i given the number of people on this island. It’s a tough question to develop a formula for the division of the TAT because we’re taking the status-quo, not aspirational. He’s not sure how to develop a TAT formula that flexes over time among the counties unless you go back to a population-based formula.

Member Soon stated the counties didn’t want to re-visit that formula. He said the question of distribution is between the counties as a whole and the State. However, the big question is how to allocate the TAT between the expenses the State needs for pre-determined allocations. The county is hoping to focus on distribution between the State and the counties as opposed to between the counties.

Member Baz stated that one of the factors to consider is the choice of each of the counties to fund certain things. For example, unlike other counties, Maui funds over \$4 million for their Visitor’s Bureau. He also stated that it impacts the total visitor expenditures quite a bit just from that one item, but that’s our choice. Member Case added, that’s why we need to allow the counties a choice in terms of how they spend their money and how much they want to market. There has to be that flexibility at the county level.

Chair Acoba asked how could that be crafted. Do you need a statute that says a certain amount is allocated to the counties and then the counties would have to get together to decide how to split up the moneys. Member Sako said the current law is very clear, the counties’ portion of TAT is already set. It’s the larger picture of what’s going to the State, Convention Center, and all those other pieces. Member Hunt stated that after the debt service for Convention Center, Turtle Bay, and HTA, it will no longer be 44.8 percent to the counties. He wondered what the percentage will be?

Chair Acoba stated the legislators may ask that question and it would be difficult to propose something without having at least considered it, and include it in the report. Secondly, circumstances change, right now we have the percentages but they don’t seem to be tied specifically to something that is rational, but instead reflects more political judgment. We have to justify and verify the results the group comes up with. He further stated that if the WG says to allocate a certain amount, it would have to figure out the components.

Member Baz stated if you look at the line that indicates visitor expenditures statewide, it is actually close to the total percentage of county expenditures on visitors divided by county. Those numbers align to the TAT allocations now. We could devise that's the determination we made in saying the current allocation is still appropriate.

Member Souki suggested another option might be to continue covering the current functions, but to also include a flexible planning component for the counties to use.

Member Sako said the County of Hawai'i has been treated differently by the Legislature purely because of the size of the island and the number of square miles, police, and fire stations. This would be the reason why some things don't line up. She said sometimes there's impact where the numbers don't show exactly.

Member Soon asked about the Convention Center allocation—if it should come out of the gross before dividing it or is it a State expenditure or a separate allocation.

- b. State Duties and Responsibilities Investigative Group – Discuss template, *Review and Analysis of 2014 CAFR Expenses* (draft) and related questions (handout)

Member Yoneshige reported that the group went through the State CAFR expenditures and looked at the high-level CAFR expenditure lines and identified whether or not those expenditure items were directly related to tourism or indirectly related to tourism but essential to support the line services. For example, for public safety, the support services such as Budget of Finance (B&F), Employees' Retirement System (ERS), and Hawai'i Employer-Union Benefits Trust Fund (EUTF) for the medical benefits, etc., become important components to ensure that the line services can be provided. He said an important piece the group came up with are the questions on the second page of their handout:

- 1) Should the 2 percent increase in the TAT authorized from Act 61 (SLH 2009) that required all additional revenues collected to be deposited to the general fund be excluded from the Working Group study/analysis and allocation recommendation(s).
- 2) The allocation of the TAT can be based on tourism or general government services provided. Should the Working Group's report to the Legislature provide information on the outcomes (allocated amounts) on both allocation methods so the Legislature has information to make an informed decision.
- 3) Should the TAT allocations be based only on expenditures or should it be based on expenditure and revenue.

Member Yoneshige stated as to question 1), the question starts aligning to what the ultimate report from this committee will look like. One of the things identified was the last increase in the TAT which was done through Act 61 (SLH 2009). The 2 percent increase in the TAT was specifically to balance the budget. All of the amounts from the TAT would be put into the general fund. Should that piece be carved out when you start looking at the allocations of the TAT in terms of dollars?

Member Yoneshige stated as to question 2), is the TAT a reimbursement to the counties for their visitor-related expenditures or is it a government-wide support type of tax. We need to look at the analysis of the allocations based on the two methodologies that have been discussed, so that in the end, legislators can see if they chose either methodology, what the impact on allocation of TAT would be.

Member Yoneshige stated as to question 3), is the analysis purely on expenditures or does it involve expenditures and revenues? The 2 percent doesn't necessarily impact the allocations for expenditures but is related to what the group envisions for the report. The allocation of the counties is another open item that will come out of the final report.

From the State level, he explained that how the counties went through and analyzed the different expenditures—high, medium, and low—and started allocating percentages to CAFR line expenditures that eventually become the basis for allocation expenditures, their methodology was too general for the State to use. He explained that for the State to get up to the level of county involvement, it would involve having people that are more knowledgeable about the operations to those specific CAFR lines. Some of the CAFR lines involve multiple departments and that's where the complexity comes into play.

Member Sako stated the counties didn't have time to go line by line, they did it by departments. She said looking at the handout for the State, the column "directly related to tourism" would be in relation to the county's high; and the column "indirectly related to tourism but essential support to line agencies" would be medium or low; and the line items with no "x" would be no nexus at all.

Chair Acoba questioned whether the first column of the state handout was tied to tourism to capture the major expenditures for government because one of the purposes for the report is to compare the functions. He also asked whether there were any items excluded because it didn't fit within the tourism area. Member Yoneshige responded "no" and that the numbers are from the State CAFR. Member Yoneshige explained that this is not a scientific analysis that resulted in these percentages, but it's more to give the reader an idea as to what the expenditures may be.

Member Sako stated airports are funded from the landing fees that visitors pay so to get a comparison of the way the counties did it, we might need to look at revenues in terms of what sources both State and counties have to rely on towards visitor expenses.

Member Yoneshige stated if we go by expenditures at least we have numbers that are comparable. Chair Acoba said health, welfare, and education are not included with the counties' numbers but included as indirectly for the State. He asked whether the State can latch on to the counties' methodology? Member Yoneshige answered "yes," he believes so.

Member Evans stated the WG will have to note that it's subjective and the State's high, medium, and low may be different from the counties. Chair Acoba said he was looking at health and welfare and was not sure if those are even connected with tourism when looking at the county chart. He said if the counties say it isn't, and the State says it is connected, then there's a discrepancy. Member Evans said the State CAFR line items represent totally different services than the same general categories at the county level.

Member Souki asked how Hawai'i and Kaua'i counties determined the portion related to visitors. For example, for both Kaua'i and the Big Island, transportation is included with public welfare. For Maui County, the bus system is included in transportation. Member Souki asked how it works for the State. Member Evans said she would need to go back to the program structure and look at what's included in welfare.

Chair Acoba stated the counties applied the visitor days ratio to the costs. He asked what would the State use as a ratio to apply to the costs. Member Yoneshige replied that the State will apply the high, medium, and low percentages. Member Hunt said you

would take the State total population, total visitor days and divide by 365 to get the ratio, which is about 12 percent.

Chair Acoba referred back to question 1) of the handout: Should the 2 percent increase in the TAT authorized from Act 61 (SLH 2009) that required all additional revenues collected to be deposited to the general fund be excluded from the Working Group study/analysis and allocation recommendation(s)?

Member Evans stated it goes back to the legislative intent of the increase. Member Baz stated if you're looking at the specifics of legislative intent, then we should be looking at all prior legislative intents and the creation of the TAT, and the initial allocation of 95 percent to the counties and 5 percent to the State. Member Soon agreed with Member Baz that the group should look at all aspects of the legislative intent. This would be one way of approaching the allocation, which is separate from just comparing the expenditures.

Member Yoneshige stated there are two components: 1) what are the expenditures related to tourism; and 2) what is the amount to be allocated. When looking at the total TAT, what is the amount that will be available.

Member Case stated from the industry perspective, it is implausible that we will ever lose the extra 2 percent of the TAT and that means it will continue to be collected indefinitely. Further, the objection to that is the TAT money should always go to tourism and its related efforts and not just slushed into the general fund. The State will take the full 2 percent and put it in the general fund and from the industry perspective, you can direct it to the Convention Center, HTA, etc., but it still gets encompassed with the counties' share of the overall allocation of tourism-related expenditures. He asked whether this means the counties' share of the total goes up. Member Hunt said it's a moving target—you can also make the argument that maybe Turtle Bay should be a part of the extra 2 percent. And what will be the impact of adding timeshares to the mix? Member Hunt said to establish a fair ratio, we have to look at expenditures and revenue sources.

Member Souki stated when looking at Turtle Bay and coming from DLNR, it's a problematic burden to the agency because of operations, maintenance funding, not including new staff, etc., regardless if it's a good idea or not or count it or not count it as part of that allocation. ASA Yamane commented on legislation that came forward during session, the TAT was being proposed to be used for every little shortfall—hospitals, beaches, wherever there was a need. Here's that additional pot that's not going to have a general fund impact in a thin general fund year. The bills did not pass for the most part, except for Turtle Bay, but it does demonstrate that the TAT is being seen as an additional pot of money that could be allocated towards all kinds of things. It all depends on whether the Legislature will continue to exercise restraint.

Chair Acoba asked if the consensus is to not include the 2 percent. Member Evans said she doesn't believe the group has reached that point yet. Member Souki said he believes the consensus is the TAT should be used for tourism. However, we can inject that discipline; the discussion is what the 2 percent should be used for. Chair Acoba asked how that question should be answered. Member Souki said it goes back to the intent that the 2 percent goes toward administrative costs for collecting the TAT.

Member Szigeti said the 7.25 percent increased to 9.25 percent, which was supposed to sunset this year back to the 7.25 percent. However, realizing it wasn't going to happen, it should be put into the mix and that's the reason why some of it is not directed to the visitor industry and visitor industry infrastructure. He said we just don't know where all

the money is going now. Member Soon suggested this part of the discussion should be deferred because there's all kinds of questions relating to this. Chair Acoba said this will be deferred to the next meeting.

Chair Acoba referred to question 2) of the handout: The allocation of the TAT can be based on tourism or general government services provided. Should the Working Group's report to the Legislature provide information on the outcomes (allocated amounts) on both allocation methods so the Legislature has information to make an informed decision?

Member Yoneshige explained that question 2) looks at how the allocation is presented based on tourism-related expenses or government-wide and this is where the 2 percent may be addressed because tourism-related in that allocation model allocates the TAT to the counties. The 2 percent is included on the government-wide side.

Member Baz stated from the counties' perspective, the information is there to do both—it created some allocation based on tourism and general expenditures. This information could be used down the road in answering either of the two questions. If the State is able to do both, it will help the counties in their evaluation. Chair Acoba believes the report calls for both information—allocation based on function and allocation based on the TAT to give the Legislature some options. He stated seeing how the Legislature has treated the TAT and what the counties want, it serves both purposes. He also stated: 1) If you want reimbursement which seems to be the driving rationale behind the TAT to the counties for their expenses related to tourism, it can be set as a foundation; and 2) The rest of the TAT, set the standard to how the rest of the TAT should be used; or the Legislature will do whatever it wants with the rest of the TAT. The TAT can serve both functions—it can reimburse the counties as part of it, and part if it would be what the Legislature uses it for.

- c. Visitor Industry Investigative Group – Discuss report, Visitor Industry Views on Visitor-Related Needs for State and County Services (handout)

Member Case stated that the handout is the report from the visitor industry investigative group. He said this was discussed at the last meeting. He summarized the report. The group went through an outreach process to respective contacts and other sources which included visitor- and county-related perspectives and prioritized the government services that have the most impact on tourism from a visitor-need perspective. The first priority is transportation and parks and recreation, primarily the beaches that include lifeguards; transportation includes airports and some harbors. These were direct connection to tourism. The second priority is public safety and housing. Public safety includes police, fire, lifeguards, and general comfort and safety perception of our visitors; a housing concern is the homeless, not necessarily Waikīkī-centric but across all islands. The third priority is culture, education, and sanitation. Culture in preservation and enhancement; education through visitor industry workforce training; and sanitation based on the general capacity to handle visitor as well as resident demand.

Member Case stated the group didn't answer the question on health and welfare and to what extent it impacts tourism. He said everything one way or another impacts tourism. They did not specifically include the use of the TAT for HTA; they basically looked at what the visitor needs are. He further stated that the big picture conclusion is that the list they came up with is independent of the State and county investigative groups and is entirely consistent with what the State and counties have set. They are on a solid foundation when it comes to all three investigative groups in terms of what services they are focusing on in terms of trying to analyze the division of duties and responsibilities.

Member Soon stated if you look at the counties' allocation of visitor expenditures, both for the counties and the State, it's going to far exceed what's collected in TAT. At both county and State levels, we are all subsidizing tourism. A lot of it comes from property taxes. He further asked where the TAT moneys should be spent; would it be fair to ask that all TAT moneys be spent on tourism. Member Case said this is what they have always believed. He said, in concept, the TAT charge has been understood to be a charge to the industry, visitors, and everyone that works in tourism to keep tourism going and marketing. The marketing of the Convention Center is directly tourism-related. Beyond that, what are the services directly related to tourism.

ASA Yamane stated that May 22, 2015 will be the deadline for the counties and State investigative groups to submit their information to the Office of the Auditor for the June 3rd meeting.

d. Establishment of other investigative groups – Discussion

Member Soon suggested establishing an allocation models investigative group. He stated we are going down the path of basing services on expenditures and was not sure if everyone agrees with that. He's looking forward to everyone coming up with different models with its advantages and disadvantages.

Name of the group: Allocation Models Investigative Group

Define scope of the investigation:

- 1) Aid Working Group to consider various allocation models for distribution of TAT funds.

Define scope of each member's authority:

- 1) Present range of models.
- 2) Lay out possible advantages and disadvantages of models.
- 3) Contribute to discussion of various models.

Assign WG members:

- 1) Ray Soon (Chair)
- 2) Ed Case
- 3) Sandy Baz
- 4) Neal Miyahira
- 5) Mary Alice Evans

It was moved by Member Souki, seconded by Member Yoneshige to establish the allocation models investigative group. The motion was unanimously approved.

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. Allocation of TAT Revenues

Chair Acoba stated the handout distributed is related to the presentation by the Department of Taxation (DoTAX) at the last meeting. The excerpts that DoTAX provided on the county revenues and policy options from the 1988 Tax Review Commission Report, pages 51-57 refers to the handouts provided. It compares the functions of the State and counties and what the

purpose of the TAT should be. It looked at county functions and State functions; some of the language is actually similar to the legislative history.

Member Baz stated a possible discussion topic on whether a possible outcome for a recommendation from this WG to the Legislature may be the TAT should not be a general fund item but a special fund created for that nexus area. Maybe the WG could recommend to the Legislature that the TAT should be a special fund.

ASA Yamane stated every year, the Office of the Auditor has a statutory charge to review all proposed funds and we put out an analysis based upon the criteria for special and revolving funds. Therefore, the office would have to review this if a special fund is proposed. She said the office has taken the position in most of its work that the creation of such funds takes moneys out of the general fund, thus impacting the Legislature's power to appropriate. She explained that putting the TAT into a special fund would be difficult for the office to support, but we would do the proposed fund analysis just as we would for any other fund.

Member Souki stated he likes the idea of injecting discipline in budgeting, but is not sure if a special fund is the right idea. If we have expectations and we create a taxing regime—the TAT—then that will be used to offset the impacts of transient accommodations; then this is more disciplined. Another discussion is do we increase the TAT. Without any discipline, then increasing it is not a discussion of how much do we need for tourism but how much do we raise on how much we spend on tourism.

Member Szigeti said there is a need for transparency and accountability because sometimes, it appears there's the endless pit of money that they can just go to. There is a need for structure and discipline. Member Hunt added it's a delicate dance for the counties as well because most of us here are pushing for the hotel room taxes to the higher tiers of the tax level. And if we're obviously getting fewer revenues based on the cap, we only have a certain amount of elasticity to push that rate up to recoup the taxes.

Member Kam left the meeting at 11:58 a.m.

Member Case stated some of the moneys do go into a special fund already. It would have to be for a specific purpose and be administered. It's more connecting it to tourism and trying to structure it so it goes back to collection from the state and counties. If we can conclude on an allocation based on what the State and counties are doing for tourism, we need the money for tourism and the formula is based on that.

VIII. Adjournment: With no further business to discuss, Chair Acoba adjourned the meeting at 12:13 p.m.

Reviewed and approved by:

Jan K. Yamane
Acting State Auditor

[] Approved as circulated.