

# **State-County Functions Working Group**

## **Final Report on Allocation of Transient Accommodations Tax Revenues**

December 2015

# **State-County Functions Working Group**

- Act 174 (SLH 2014)
- Composition of Working Group, Meetings
- Process
  - History of TAT
  - Analysis of Expenditures
  - Allocation Models
  - Forecasts and Scenarios
  - Agreement on Approach and Model
- Recommendation

## Charge to the Working Group

1. Evaluate the distribution of duties and responsibilities for public services between the State and the counties
2. Recommend a model for allocation of transient accommodation tax (TAT) revenues that properly reflects those duties and responsibilities

Act 174 (SLH 2014)

## Working Group Composition

Appointing Authority	
Governor	4
Senate	2
House	2
Mayors	4
Chief Justice	Chair
<b>TOTAL</b>	<b>13</b>

Members from:

- State administration
- County administration
- Visitor industry
- Staff: Office of the Auditor
- Consultant hired, August 2015

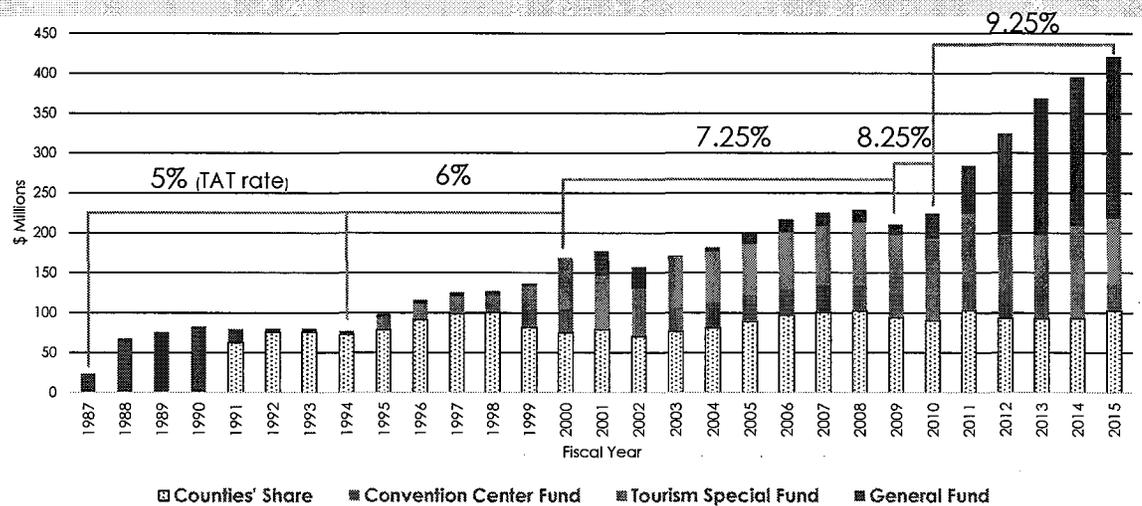
# Meetings and Reports

- Began October 2014
- Monthly or twice monthly meetings
- Interim Report -- December 2014
- Final Report -- December 2015

Minutes and handouts for meetings are available at <http://auditor.hawaii.gov/task-forceworking-group/>

# History of TAT

Rates, amounts and distribution have changed significantly:



Source: Hawaii Department of Taxation

## Current Distribution

### Allocations for FY2015 and FY2016

- Tourism Special Fund (TSF)      \$ 82.0 million
  - Convention Center                      \$ 26.5 million
  - Turtle Bay                                 \$ 1.5 million
  - Counties                                    \$103.0 million
  - State General Fund                      Remainder\*
  - to DLNR Special Fund*                 \$ 3.0 million
- \* Remainder, in FY2015 =                 \$208.0 million

Sources: Acts 117 and 121, SLH 2015

## Expenditures on Public Services

Comprehensive Annual Financial Reports (CAFR) show:

- Totals and by functional category
- For each category, gross and net expenditures  
(Net = gross expenditures minus program revenues)
- 3 types of “activities” or “units”

## Expenditures on Public Services: 3 Types

- **Primary Government Activities**  
(includes public safety, highways, education, welfare, conservation of natural resources, interest payments)
- **Business-type Activities**  
(includes State harbors and airports, various county activities)
- **Component Units**  
(semi-autonomous: e.g., UH, Hawai'i Health Systems Corp, county water departments, HART)

## The Investigative Group Process

- 3 investigative groups formed initially – 3 approaches:
- State Investigative Group analyzed expenditures by broad functional categories (public safety, etc.)
  - County Investigative Group looked at specific funding line items for each county
  - Visitor Industry Investigative Group identified priorities for sustaining the industry

## Visitor Industry Investigative Group Priorities

- 1: Transportation, Parks and Recreation
- 2: Public Safety and Housing (homeless issue)
- 3: Culture, Education (of workforce), Sanitation, Regulation of Illegal Units

## CAFR Data Provide Several Ways to Estimate State's and Counties' Share of Expenditures

Relation of State's Expenditures to Counties' Expenditures	State's Share	Counties' Share
1. Total expenditures, FY2014	77%	23%
2. Direct expenditures on tourism, FY2014 (State IG)	52%	48%
3. Weighted direct and indirect expenditures on tourism, FY2014 (based on County IG)	57%	43%
4. Average of total expenditures, FYs 2002–2012	78%	22%
5. Net Expenditures, all government functions, FY2014	83%	17%
6. Net Expenditures, direct expenditures related to tourism, FY2014	46%	54%
7. Gross Expenditures, "Primary Government Activities" only, FY2014	54%	46%
8. Net Expenditures, "Primary Government Activities" only, FY2014	81%	19%
9. Net Expenditures, "Primary Government Activities" only, direct expenditures related to tourism, FY2014	52%	48%

## **Development of Recommended Model**

Working Group took into account:

- Gross and net expenditures
- Primary government activities
- Tourism-related expenditures

Working Group considered several allocation models

## **Agreement on Approach**

- Tourism Special Fund (TSF) a priority, to be supported consistently as an investment in Hawai'i
- Both State and counties should share in risks and rewards of TAT revenues

## Agreement on Approach (cont.)

Principles: TAT allocation model should be:

- Fair
- Predictable
- Simple
- Resilient to changing circumstances

## Recommended Model

- TSF: \$82 million, indexed to CPI-U (inflation)
- Existing allocations per Legislature (\$31 million):
  - Convention Center \$26.5 million
  - Turtle Bay \$ 1.5 million
  - Special Land Development Fund \$ 3.0 million
- Remainder to State and Counties' general funds –
  - 55% to State
  - 45% to Counties

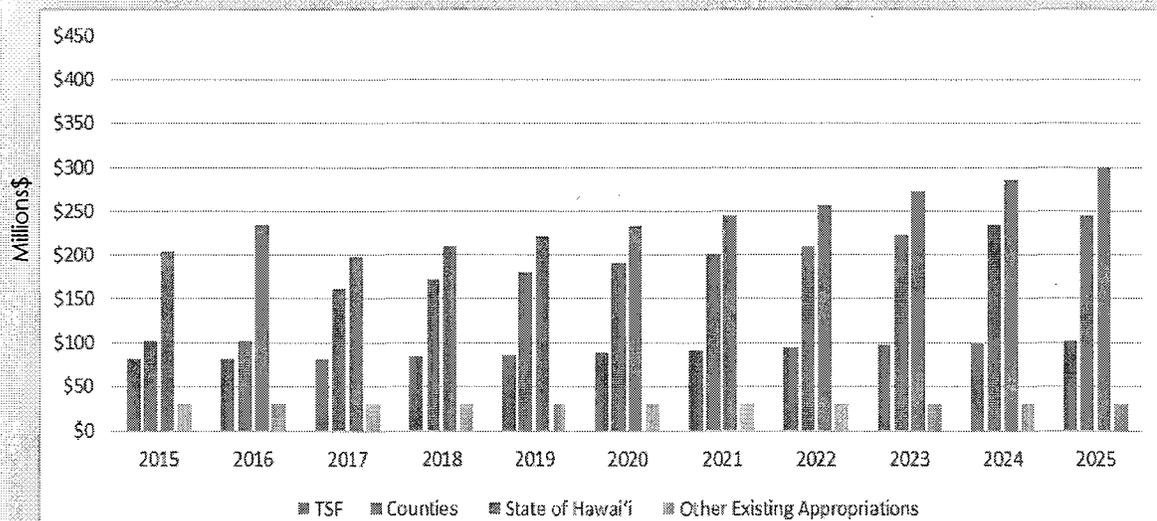
*CPI-U = Consumer Price Index for Urban Consumers, Honolulu*

# Recommended Model: Forecast

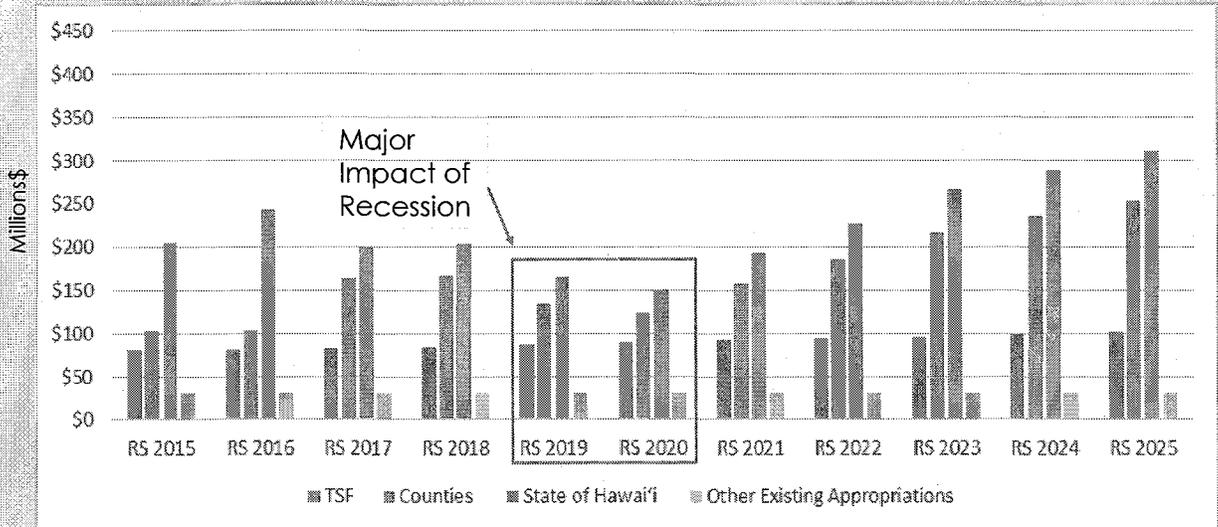
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2025
Total (million)	\$421	\$450	\$474	\$497	\$520	\$543	\$568	\$592	\$623	\$649	\$678	\$5,594
TSF (+ CPI)	\$82	\$82	\$83	\$85	\$87	\$89	\$92	\$94	\$97	\$99	\$102	\$909
Other Existing Appropriations												
Turtle Bay	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5	\$15
Convention Center	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$26.5	\$265
Special Land Fund	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$30
Remainder	\$308	\$337	\$360	\$381	\$402	\$423	\$445	\$467	\$495	\$519	\$545	
Counties (45% of Remainder)	\$103	\$103	\$162	\$172	\$181	\$190	\$200	\$210	\$223	\$234	\$245	\$1,920
State (55% of Remainder)	\$205	\$234	\$198	\$210	\$221	\$233	\$245	\$257	\$272	\$286	\$300	\$2,455

Annual TAT revenues based on Hospitality Advisors forecast

# Recommended Model: Forecast



## Recommended Model: "What-If" Recession Scenario



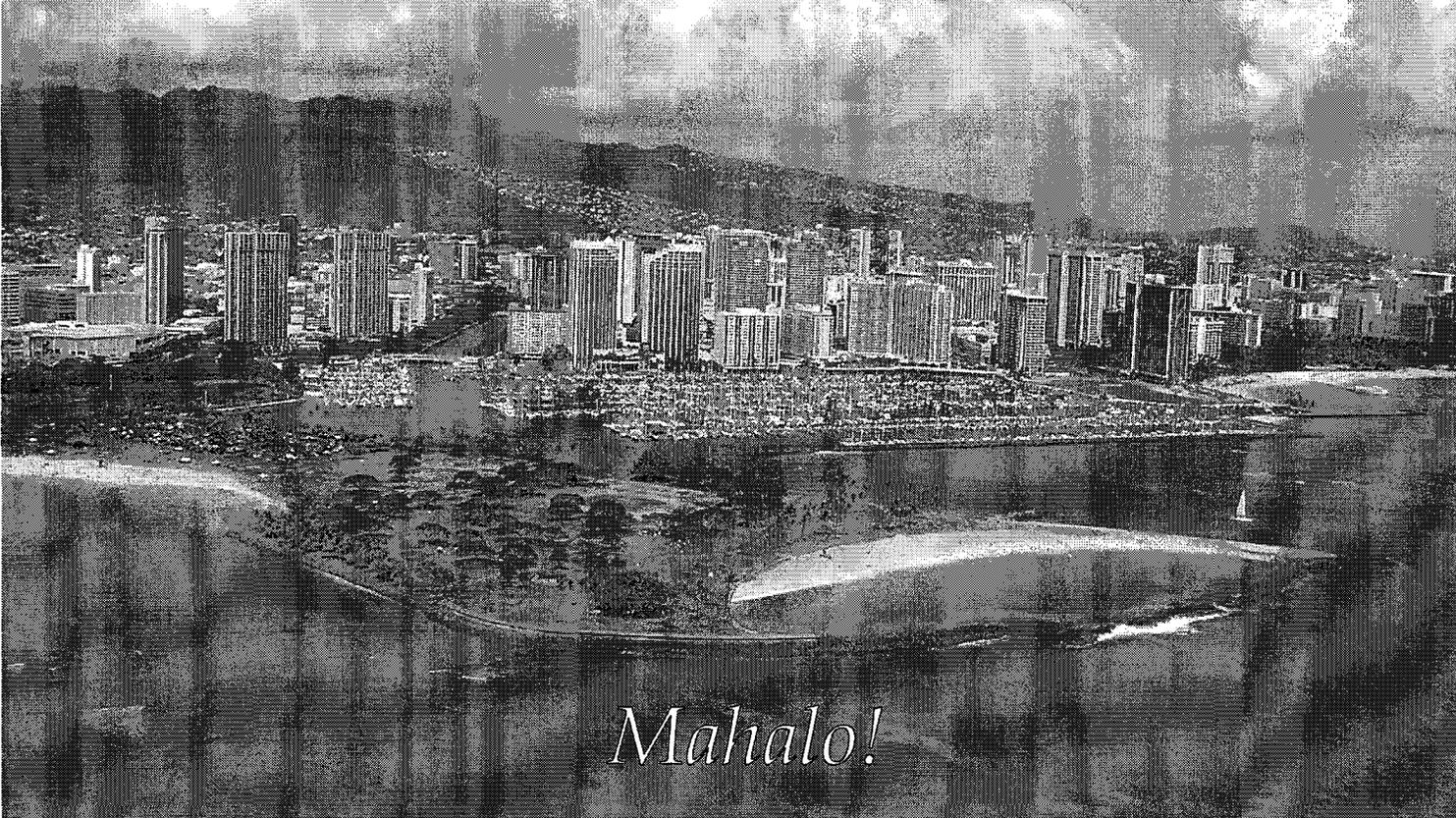
## Additional Consideration

Trends in visitors' lodging preferences – will Airbnb and the like affect the forecast?

TAT revenues could increase faster (with higher tax compliance) or slower (with more competition).

## Highlights

- Recommended model works for key stakeholders in both good times and bad times
- TSF is protected when marketing needed
- Payment of existing obligations continues
- TAT allocation is 55% to State, 45% to Counties
- Local communities and visitor industry share benefits (police, life guards, park upkeep)



*Mahalo!*

Additional handout distributed  
at the January 6, 2016  
meeting

TAT DISTRIBUTIONS

Historic	Collections (Mill \$)	State			Counties			CC + T			sum of Gen Funds	
		State	Counties	CC + T	State	Counties	CC + T	State	Counties	CC + T	State	Counties
1987	\$23.5	\$23.5			100%	0%	0%	100%	0%			
1988	\$67.3	\$67.3			100%	0%	0%	100%	0%			
1989	\$76.0	\$76.0			100%	0%	0%	100%	0%			
1990	\$82.5	\$82.5			100%	0%	0%	100%	0%			
1991	\$79.2	\$16.5	\$62.8		21%	79%	0%	21%	79%			
1992	\$80.0	\$4.2	\$75.8		5%	95%	0%	5%	95%			
1993	\$80.3	\$4.2	\$76.1		5%	95%	0%	5%	95%			
1994	\$76.5	\$3.9	\$72.6		5%	95%	0%	5%	95%			
1995	\$98.0	\$4.1	\$78.6	\$15.3	4%	80%	16%	5%	95%			
1996	\$115.7	\$4.8	\$91.6	\$19.3	4%	79%	17%	5%	95%			
1997	\$125.5	\$5.2	\$99.3	\$20.9	4%	79%	17%	5%	95%			
1998	\$127.1	\$5.3	\$100.6	\$21.2	4%	79%	17%	5%	95%			
1999	\$136.6	\$2.5	\$81.7	\$52.2	2%	60%	38%	3%	97%			
2000	\$168.6	\$0.2	\$75.4	\$92.6	0%	45%	55%	0%	100%			
2001	\$177.2	\$30.7	\$79.4	\$67.1	17%	45%	38%	28%	72%			
2002	\$157.6	\$27.3	\$70.6	\$59.7	17%	45%	38%	28%	72%			
2003	\$170.9	\$1.5	\$76.5	\$92.9	1%	45%	54%	2%	98%			
2004	\$181.9	\$5.6	\$81.5	\$94.8	3%	45%	52%	6%	94%			
2005	\$198.8	\$12.4	\$89.1	\$97.3	6%	45%	49%	12%	88%			
2006	\$217.0	\$16.4	\$97.2	\$103.4	8%	45%	48%	14%	86%			
2007	\$224.9	\$17.1	\$100.8	\$107.1	8%	45%	48%	14%	86%			
2008	\$229.4	\$15.9	\$102.8	\$110.7	7%	45%	48%	13%	87%			
2009	\$210.6	\$13.6	\$94.4	\$102.7	6%	45%	49%	13%	87%			
2010	\$224.3	\$31.8	\$90.6	\$101.9	14%	40%	45%	26%	74%			
2011	\$284.5	\$59.8	\$102.9	\$121.8	21%	36%	43%	37%	63%			
2012	\$323.9	\$126.3	\$93.0	\$104.6	39%	29%	32%	58%	42%			
2013	\$368.6	\$171.6	\$93.0	\$104.0	47%	25%	28%	65%	35%			
2014	\$395.2	\$187.2	\$93.0	\$115.0	47%	24%	29%	67%	33%			
2015	\$421.0	\$203.0	\$103.0	\$115.0	48%	24%	27%	66%	34%			
<b>Proposed: Forecast</b>												
					Land Fund				Land Fund			
2017	\$474.0	\$198.0	\$162.0	\$111.0	\$3.0	42%	34%	23%	1%	55%	45%	
2018	\$497.0	\$210.0	\$172.0	\$113.0	\$3.0	42%	35%	23%	1%	55%	45%	
2019	\$520.0	\$221.0	\$181.0	\$115.0	\$3.0	43%	35%	22%	1%	55%	45%	
2020	\$543.0	\$233.0	\$190.0	\$117.0	\$3.0	43%	35%	22%	1%	55%	45%	