Agenda item IV. a.

REPORT TO THE LEGISLATURE

OF THE

STATE OF HAWAI‘I

BY THE STATE-COUNTY FUNCTIONS WORKING GROUP (TAT)

Submitted by the Auditor on behalf of the Working Group

DRAFT FOR FINAL REVIEW ON NOV 12, 2015

<State seal>

NOTES TO WORKING GROUP FROM BCH:

1. Formatted cover still to come (from Office of Auditor)

2. All substantive changes, whether suggested by Working Group or Auditor or others are highlighted. Minor changes mentioned in the November 4 meeting are also highlighted. All highlights are for this draft only.

3. Not highlighted – some exhibit changes of format, notably inclusion of the column charts in the depiction of the WG’s recommended model. Other minor changes of formatting and style are not highlighted.

4. Red typeface is used for communications with WG, to be removed from final text.

Thanks!

November 12, 2015

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Acronyms and Abbreviations

CAFR	comprehensive annual financial report
CPI	Consumer Price Index (calculated by federal Bureau of Labor Statistics)
CPI-U	Honolulu Consumer Price Index for Urban Consumers
DBEDT	Hawai‘i State Department of Business, Economic Development and Tourism
DLNR	Hawai‘i State Department of Land and Natural Resources
FY	fiscal year
GET	General Excise Tax
HA	Hospitality Advisors LLC
HTA	Hawai‘i Tourism Authority
IVU	individual vacation unit
SLH	Session Laws of Hawai‘i
TAT	transient accommodation tax
TOT	transient occupancy tax (on use of timeshare units; comparable to TAT)
TSF	Tourism Special Fund

Foreword

The 2014 Legislature, through Act 174, Session Laws of Hawai‘i 2014, created the State-County Functions Working Group. Charged with (1) evaluating the division of duties and responsibilities between the State and counties relating to the provision of public services, and (2) submitting a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services, the Working Group submits its findings and recommendations in this report.

On behalf of the State-County Functions Working Group as well as my office, we wish to express our appreciation for the cooperation and help of the many individuals who contributed to this report. We also want to thank our consultant, Belt Collins Hawaii LLC, for its assistance and commitment to this project.

Jan K. Yamane
Acting State Auditor

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Message From The Chair

Placeholder

Sincerely,

Simeon Acoba, Associate Justice (retired)
Chair

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State-County Functions Working Group Members

Simeon Acoba, Chair
Associate Justice (retired)

Sananda Baz
Budget Director

Edward E. Case
Senior Vice President and Chief Legal Officer
Outrigger Enterprises Group

Mary Alice Evans
Deputy Director
Department of Business, Economic Development and Tourism

Steven Hunt
Tax Manager
County of Maui

George Kam
Quiksilver

Neal Miyahira
Administrator
Budget Program Planning and Management Division
Department of Budget and Finance

Deanna Sako
Finance Director
County of Maui

Ray Soon
Chief of Staff
City and County of Honolulu

Jesse Souki
Deputy to the Chair
Board of Land and Natural Resources
(until December 2014)

Of Counsel
Imanaka Asato LLC
(from January 2015)

George D. Szigeti
President and CEO
Hawai'i Lodging & Tourism Association
(REsigned from Working Group in June 2015)

Ronald K. Williams
President and CEO
Atlantis Adventures, LLC

Tina Yamaki
Executive Director
Surfrider Spirit Sessions
(Appointed to Working Group in June 2015)

Kerry Yoneshige
Business Management Officer
Department of Accounting and General Services

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FINAL REPORT TO THE LEGISLATURE OF THE STATE OF HAWAIʻI BY THE STATE-COUNTY FUNCTIONS WORKING GROUP (TAT)

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Summary

The State-County Functions Working Group was established by Act 174, Session Laws of Hawaiʻi (SLH) 2014, to consider the distribution of duties and responsibilities for public services between the State and the counties, and to recommend to the Legislature a model for allocation of transient accommodation tax (TAT) revenues in future years that properly reflects the division of those duties and responsibilities. (Those revenues include both TAT and transient occupancy tax (TOT) collections for time share properties.)

A 13-person Working Group was established, with members chosen by the President of the Senate, the Speaker of the House of Representatives, the four county mayors and the governor, and with a Chair selected by the Chief Justice of the Hawaiʻi Supreme Court. The Working Group's initial meeting was on October 22, 2014. The Working Group met regularly in the following year, and reached a unanimous decision to recommend a model for allocating TAT revenues at its meeting of October 21, 2015. The group subsequently reviewed and refined this report.

The Working Group examined the cost of public services provided by the State and counties. It considered expenditures grouped in the broad functional categories used in comprehensive annual financial reports (CAFR) and more fine-grained analyses of county expenditures, to learn both the relative size of total public service expenditures and the ratio of tourism-related expenditures by the State and counties. 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 were distributed in a 55 percent (for the State) and 45 percent (for the counties) ratio.

The Working Group identified key principles for allocation of TAT moneys, including fairness, predictability, simplicity and flexibility or resilience in changing circumstances. The Working Group saw the TAT revenue stream as important to the work of the Hawaiʻi Tourism Authority (HTA), the counties and the State, and sought an approach that reflects both public service provision and the need for these organizations to be able to budget and plan work supported by TAT allocations.

Recommendation

The Working Group considered several models for the allocation of TAT revenues on an ongoing basis. The Working Group recommends that:

- The Tourism Special Fund (TSF) receive $82 million in fiscal year (FY) 2015 and FY2016, and amounts changing in line with the Consumer Price Index for Urban Consumers (Honolulu) in subsequent years;
- Existing appropriations for the Convention Center, Turtle Bay, and the Special Land Development Fund, totaling $31 million, continue at the same level in future years; and
- The remainder of the TAT revenues be allocated to the State and counties, with the State receiving 55 percent of the remainder, and the counties receiving 45 percent.[1]

The recommendation followed on study of both a growth scenario, drawing on available information about likely developments in visitor spending on accommodations, and a "what if" recessionary scenario. The Working Group sought to find an allocation strategy that could be found to be equitable in both good times and bad. Allocation models were assessed in light of projected distributions under both growth and recessionary conditions.

The distribution of revenues to the four counties has followed an allocation established in 1990, which has not changed in later years (44.1 percent to the City and County of Honolulu, 22.8 percent to Maui County, 18.6 percent to Hawai'i County, and 14.5 percent to Kaua'i County). The Working Group did not recommend a change in that distribution. The revenues allocated to the counties would continue to be allocated without any further provision that the money be spent for particular purposes. [BCH: request WG review/revision of this last sentence.]

The Working Group decided to recognize as continuing in future years the existing appropriations from TAT revenues (specified in Act 174, and in Acts 117 and 121, SLH 2015), but found that any future special appropriations should come from the share of the jurisdiction (State or counties) that made the actual appropriation. If, for example, the Legislature appropriates funds above the amount currently set aside for the Convention Center, that amount would come from the State's 55 percent share of revenues, and not be considered as an obligation preceding the 55 percent/45 percent split. Again, should any of the existing obligations be met and no longer be needed, the amount set aside for those obligations would be reduced accordingly.

[1] See p. 2-16 for more on this judgment.

Starting in FY2019, if the counties do not set aside enough funds to cover their annual obligations to the Employer-Union Trust Fund (EUTF) for health care, the difference between their obligations and their contributions will be taken from their TAT allocations. This contingency is expected to be met by the counties, and is not part of the model considered by the Working Group.

The report provides additional information concerning the history of the TAT; public expenditures, including expenditures directly or indirectly related to tourism; principles for developing models of allocation of the TAT revenues; models for allocation; forecasts for estimating future revenues; and issues that could affect the amounts to be allocated. Draft legislation incorporating the Working Group recommendations is included as Chapter Four.

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Chapter 1

Introduction

Hawai'i's transient accommodations tax (TAT) was enacted in 1986 as a tax upon room revenues derived from transient accommodations and imposed upon every operator of such accommodations.[1] Since that time, the Legislature adjusted the TAT by both raising the TAT rate and changing the distribution of TAT revenues. In 2014, the Legislature indicated it would consider permanently establishing TAT revenue allocations between the State and the counties. In light of this, it established the State-County Functions Working Group (Working Group) and directed it to:

- Conduct a study to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services and
- Submit a recommendation to the Legislature on the appropriate allocation of the TAT revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

This final report of the Working Group addresses these objectives[2] and includes draft legislation in a form suitable for introduction during the 2016 Regular Session.

State-County Functions Working Group Composition, Responsibilities, and Meetings

The Working Group is composed of 13 members and is administratively placed within the Office of the Auditor. As directed by Act 174, Session Laws of Hawai'i (SLH) 2014, the members of the Working Group were appointed by the Governor, Chief Justice of the State of Hawai'i, the President of the Senate, the Speaker of the House of Representatives, and each of the county Mayors. Members appointed by the Chief Justice, President, and Speaker could not be State or County employees. Working Group members are listed below, along with their affiliation and appointing authorities.

[1] Act 340 (Session Laws of Hawai'i 1986).

[2] Act 174 (SLH 2014).

Working Group Member	Affiliation	Appointing Authority
Simeon Acoba, Chair	Associate Justice (retired)	Chief Justice
Sananda Baz	Budget Director	Mayor, County of Maui
Edward E. Case	Senior Vice President and Chief Legal Officer Outrigger Enterprises Group	House Speaker
Mary Alice Evans	Deputy Director Department of Business, Economic Development and Tourism	Governor
Steven Hunt	Tax Manager	Mayor, County of Kaua‘i
George Kam	Quiksilver	Senate President
Neal Miyahira	Administrator Budget Program Planning and Management Division Department of Budget and Finance	Governor
Deanna Sako	Finance Director	Mayor, County of Hawai‘i
Ray Soon	Chief of Staff	Mayor, City and County of Honolulu
Jesse Souki	Deputy to the Chair Board of Land and Natural Resources (until December 2014) Of Counsel Imanaka Asato LLC (from January 2015)	Governor
George D. Szigeti	President and CEO Hawai‘i Lodging & Tourism Association	House Speaker (Resigned from Working Group in June 2015)
Ronald K. Williams	President and CEO Atlantis Adventures, LLC	Senate President
Tina Yamaki	Executive Director Surfrider Spirit Sessions	House Speaker (Appointed to Working Group in June 2015)
Kerry Yoneshige	Business Management Officer Department of Accounting and General Services	Governor

Working Group meetings were held once or twice monthly from October 2014 through December 2015 and were subject to the State’s sunshine law, Chapter 92, Hawai‘i Revised Statutes. Agendas and minutes, as well as meeting materials, information, and resources, are available at the Office of the Auditor’s website:

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http://auditor.hawaii.gov/task-forceworking-group/. The Office of the Auditor provided staff support for the Working Group.

Background on Hawai‘i’s Transient Accommodations Tax

The TAT took effect on January 1, 1987, and levied a 5 percent tax on the gross income or gross proceeds derived from furnishing transient accommodations. The Legislature sought to tax the tourism industry for the benefit of the state, while at the same time limiting the impact of the tax on the industry by excluding general excise taxes collected from calculation of gross income or gross proceeds.

Transient Accommodations Tax Rate

The TAT rate has increased over time. In 1993, the Legislature changed the TAT rate from 5 percent to 6 percent beginning July 1, 1994. Five years later, in 1998, the rate was increased to 7.25 percent beginning January 1, 1999. The act also assessed occupants of resort time share vacation units a 7.25 percent tax on the fair market rental value of those units.[3]

Finally, Act 61 (SLH 2009) increased the rate from 7.25 percent to 8.25 percent for the period July 1, 2009, to June 30, 2010; and to 9.25 percent for the period July 1, 2010, to June 30, 2015. The rate had been scheduled to revert to 7.25 percent on July 1, 2015,[4] but Act 161 (SLH 2013) made permanent the 9.25 percent rate which had been in effect since July 1, 2010. The effective dates and changes in TAT rates are shown in Exhibit 1-1.

Exhibit 1-1: TAT Rate Changes and Effective Dates, Inception to Present

Effective Date	Rate
January 1987	5.00%
July 1994	6.00%
January 1999	7.25%
July 2009	8.25%
July 2010	9.25%

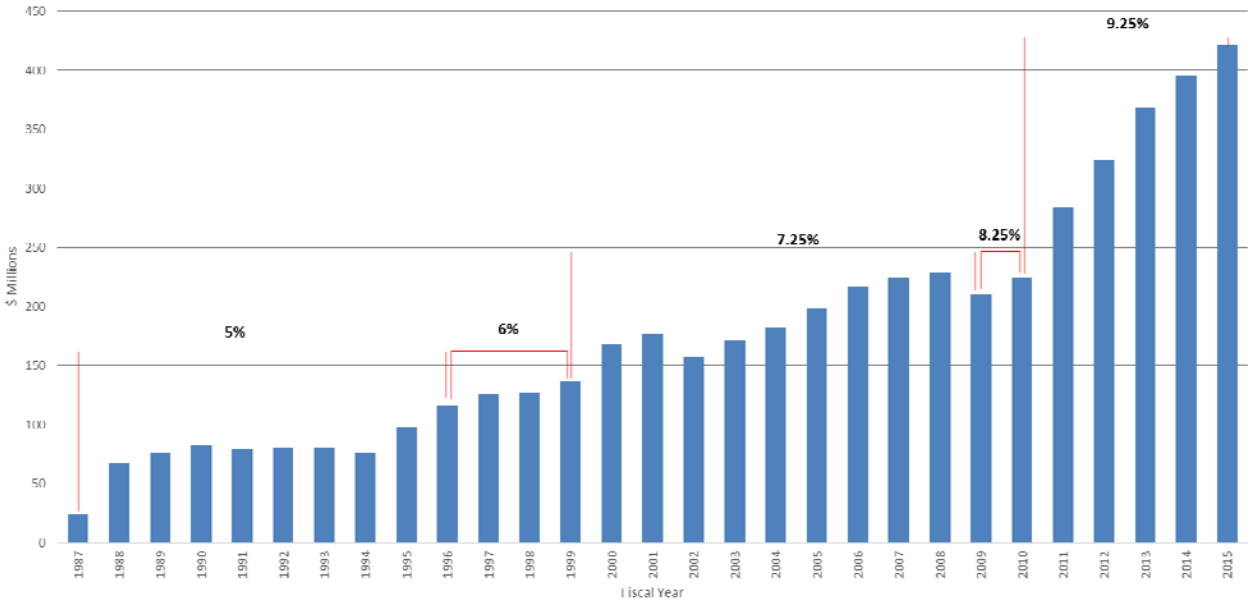
Source: Office of the Auditor

[3] Act 93 (SLH 2015) amends the definition of fair market rental value and increases the transient accommodations tax imposed on resort time share vacation units by 1 percent each year to gradually achieve a rate of 9.25 percent of the fair market rental value.

[4] Act 161 (SLH 2013).

Exhibit 1-2 shows TAT collections and rates for FY1987 to FY2015.

Exhibit 1-2: TAT Collections and Rates, FY1987 to FY2015



Source: Hawai'i Department of Taxation and Office of the Auditor

Transient Accommodations Tax Distribution[5]

Although the TAT took effect in 1987, it was not until 1990 that a portion of the TAT collected was distributed to the counties. Thereafter, the distribution rate changed more than a dozen times over the next two decades.

Act 185 (SLH 1990) began distributing TAT funds to the State and various counties as follows:

- 5 percent of the revenues collected was retained by the State for TAT-related administrative purposes;
- Of the remaining 95 percent of TAT collected:
  - 14.5 percent was to be distributed to Kaua'i County;
  - 18.6 percent was to be distributed to Hawai'i County;
  - 22.8 percent was to be distributed to Maui County; and
  - 44.1 percent was to be distributed to the City and County of Honolulu.

5 The historical discussion deals with the transient accommodations tax; the transient occupancy tax on time shares occupied by owners or time share program participants is calculated differently, and its rate has changed at different times. The current rate is 9.25 percent of "fair market value." For computation of "fair market value," see Hawai'i State Department of Taxation, *Tax Facts 98-4 Transient Accommodations Tax on Time Share Occupancy,* 1998, at http://files.hawaii.gov/tax/legal/taxfacts/tf98-04.pdf.

In 1993, the distribution was changed beginning July 1994, by increasing the State's portion for deposits to the Convention Center Capital and Operations Special Fund.[6] Distribution to the counties remained the same as in 1990; thus:

- Five percent of the revenues collected was retained by the State for TAT-related administrative purposes;
- One-sixth (1/6) of the revenues collected was deposited into the Convention Center Capital and Operations Special Fund; and
- The remaining TAT collected was distributed to the Counties in the same proportional share as in prior years.

The 1998 Legislature amended the TAT by assessing and collecting taxes on resort time share vacation units.[7] Additionally, the measure increased the distribution to the Convention Center Capital Special Fund, included a distribution to the Tourism Special Fund (TSF), and divided the remaining TAT collected among the Counties so that:

- 17.3 percent of the revenues collected was deposited into the Convention Center Capital Special Fund;
- 37.9 percent was deposited into the TSF; and
- 44.8 percent was distributed to the Counties in the same proportional share as in prior years.

In 2002,[8] the Legislature for the first time limited TAT distributions to the TSF (capped at almost $62.3 million, and lowered the percentage deposited to the fund from 37.9 percent to 32.6 percent, effective July 2002). It also limited TAT distributions to the Convention Center Enterprise Special Fund by capping these at $31 million, with any excess revenues deposited into the general fund, effective January 2002.[9] If the deposit to the tourism fund exceeded its cap, then of the remaining overage, $1 million would be deposited in the following proportional shares—90 percent to the State Parks Special Fund and 10 percent to the Statewide Trail and Access Program—but not more than $1 million in any fiscal year. Finally,

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6 The Legislature later changed the Convention Center Capital and Operations Special Fund to the Convention Center Capital Special Fund through Act 124 (SLH 1997).

7 Act 156 (SLH 1998).

8 Act 250 (SLH 2002).

9 Act 253 (SLH 2002).

the Legislature deposited 5.3 percent into the newly established Transient Accommodations Tax Trust Fund.[10]

Over the next few years—2005 to 2008—the Legislature continued adjusting TAT revenue distribution by removing caps,[11] increasing and changing distribution,[12] and establishing and funding new funds.[13]

In 2009, the Legislature began exploring different avenues for increasing revenues to replace record shortfalls in the State budget, due to what was later called the Great Recession. A veto by the Governor was overridden by the Legislature and the TAT bill was later enacted as Act 61 (SLH 2009); it increased the TAT rate and required that the additional revenues collected be deposited to the general fund. Thus, the 2009 TAT rate of 7.25 percent was increased to 8.25 percent from July 2009 to June 2010; and to 9.25 percent from July 2010 to June 2015.

In 2011, the Legislature continued to address budget shortfalls by increasing revenues from the TAT to the State. To accomplish this, the Legislature passed a measure that limited TAT revenues deposited into the TSF to no more than $69 million, and capped TAT revenues to the Counties at $93 million.[14] In its Conference Committee Report,[15] the Legislature stated that the measure was intended to temporarily increase and preserve the amount of state revenues derived from the TAT, calling it a necessary component of the package of legislation aimed at addressing the State's extended economic crisis.

By 2012, the State's focus returned to growing travel and tourism. Leveraging an executive order by President Obama in January 2012 that announced new initiatives to significantly increase travel and tourism in the United States, the Legislature sought to grow TAT deposits in the TSF to $71 million (from $69 million) to take advantage of the increased access to Hawai'i for international visitors.[16]

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10 The Legislature later repealed the Transient Accommodations Tax Trust Fund through Act 235 (SLH 2005).

11 Act 235 (SLH 2005) removed the cap and increased the allocation of TAT revenues to the TSF; repealed the Transient Accommodations Tax Trust Fund; revised the allocation of TAT revenue for the State Parks Special Fund and the Special Land Development Fund; and directed excess revenues to be deposited into the general fund.

12 Act 209 (SLH 2006) increased the ceiling of TAT revenues deposited into the Convention Center Enterprise Special Fund and directed excess revenues to be deposited into the general fund.

13 Act 201 (SLH 2007) established and funded the Tourism Emergency Trust Fund.

14 Act 103 (SLH 2011).

15 Conference Committee Report No. 139 on Senate Bill 1186, Senate Draft 2, House Draft 1, Conference Draft 1, dated April 29, 2011.

16 Act 171 (SLH 2012).

In 2013, the Legislature made permanent the 9.25 percent TAT rate and the caps on TAT distribution to the TSF and the Counties.[17] Versions of the measure—for example, Senate Bill 1194, Senate Draft 2, proposed House Draft 1—were hotly debated among stakeholders in legislative committees.

The State director of finance testified that reducing the 9.25 percent TAT charge to 7.25 percent would repeal an important revenue source for fiscal years 2014 and 2015. Hawaiʻi Lodging and Tourism Association and Hawaiʻi Tourism Authority (HTA) representatives advocated a reduction of the TAT to 7.25 percent as a means of keeping Hawaiʻi's visitor industry competitive and maintaining the positive momentum of the industry and long-term positioning of the Hawaiian Islands in the world-wide market. The Counties—the City and County of Honolulu and the counties of Hawaiʻi, Maui, and Kauaʻi—espoused the need for the TAT to support services for residents and visitors alike, including ocean safety, park maintenance, police protection, fire protection, bus services, and infrastructure repair and maintenance. For some counties, TAT distributions are the second largest source of county revenue, making it important that the distributions increase as visitor counts increase.

The Legislature ultimately decided that allowing the TAT rate to revert to 7.25 percent would deprive the general fund of needed tax revenues. Retention of the 9.25 percent tax rate was seen as key to ensuring that the State's general fund remains balanced beyond the fiscal biennium 2013 to 2015.[18] The 9.25 percent cap was made permanent, and the distribution of revenue was set as follows:

- $33 million was allocated to the Convention Center Enterprise Special Fund (rather than 17.3 percent);
- $82 million was allocated to the TSF (rather than 34.2 percent),
- $1 million of which is allocated to operate a Hawaiian center and the Museum of Hawaiian Music and Dance at the Hawaiʻi Convention Center;
- The $1 million allocation to the State Parks Special Fund and Special Land Development Fund was repealed;
- $93 million was allocated to the Counties (rather than 44.8 percent) and the $93 million cap for the period beginning on July 1, 2011, and ending on June 30, 2015, was repealed; and
- $3 million of the excess TAT revenues was deposited into the general fund for natural resources important to the visitor industry, facilities, and public lands connected with enhancing the visitor experience, to be expended by

[17] Act 161 (SLH 2013).

[18] Conference Committee Report No. 146 on Senate Bill 1194, Senate Draft 2, House Draft 1, Conference Draft 1, dated April 26, 2013.

mutual agreement of the Board of Land and Natural Resources and the HTA Board of Directors.[19]

The Legislature also added in 2013 the required use of a portion of the TAT revenues to supplement deficient county public employer contribution amounts commencing with FY2019.[20] Recognizing the need to reduce the unfunded liability of the State's Employer-Union Health Benefits Trust Fund (EUTF), the Legislature directed the use of general excise tax and TAT revenues to supplement deficit payments by state and county public employers, respectively.

In 2014, the Legislature again changed TAT allocations to the Counties and established the State-County Functions Working Group to evaluate the division of duties and responsibilities between the State and Counties and to recommend the appropriate TAT allocations to the Counties.[21] One legislative committee noted that TAT had been the subject of considerable discussion and debate among policymakers regarding its effect as a significant revenue generator and funding source in the State.[22]

Stakeholder testimonies alluded to myriad impacts if the cap was lifted or retained, citing general fund tax losses if the cap was removed;[23] that county annual tourism-related expenditures far exceeded the counties' capped portion of the TAT;[24] and that the imposed cap was always understood to be a temporary measure;[25] among others. In conference, the Legislature raised the TAT revenues allocated to the counties to $103 million for fiscal years 2015 and 2016, but reduced the allocation to $93 million thereafter. Before the Legislature considered permanently establishing the TAT revenue allocations between the State and counties, it directed this State-County Functions Working Group to conduct a study to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and to submit a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and

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19 According to the Department of Land and Natural Resources, the $3 million was not accessible to the department for FY2015 because there was no appropriation. This issue has since been corrected for FY2016.

20 Act 268 (SLH 2013).

21 Act 174 (SLH 2014).

22 House Committee on Finance, Standing Committee Report No. 764-14 on House Bill 1671, House Draft 1, dated February 28, 2014.

23 Testimony by Kalbert Young, State Director of Finance, dated March 28, 2014, to the Senate Committee on Ways and Means on House Bill No. 1671, House Draft 1, Senate Draft 1.

24 Testimony of Kirk Caldwell, Mayor of the City and County of Honolulu, dated March 28, 2014, to the Senate Committee on Ways and Means on House Bill No. 1671, House Draft 1, Senate Draft 1.

25 Testimony of William P. Kenoi, Mayor of the County of Hawai'i, dated March 28, 2014, to the Senate Committee on Ways and Means on House Bill No. 1671, House Draft 1, Senate Draft 1.

responsibilities relating to the provision of public services. (Act 174 is attached to this report as Appendix A.)

In 2015, the Legislature again introduced numerous measures to amend distribution of the TAT even as the Working Group continued to meet. The Working Group offered comments on all such measures, suggesting that the Legislature resist amending the distribution rate until after the group completed its work and issued its final report to the 2016 Legislature. Nevertheless, the Legislature passed two measures that changed the distribution priority and rate, and which were signed by the Governor as Acts 117 and 121, SLH 2015. As amended, the law now distributes TAT revenues in the following priority and rate structure:[26]

1. $1.5 million to the Turtle Bay conservation easement;
2. $26.5 million to the Convention Center Enterprise Special Fund;
3. $82 million to the TSF;
4. $103 million for each of fiscal years 2015 and 2016;[27] and $93 million for each fiscal year thereafter to the counties; and
5. $3 million to the Special Land and Development Fund to be expended according to the Hawaiʻi Tourism Authority Strategic Plan for protection, preservation, maintenance, and enhancement of natural resources, including beaches, among other purposes.

Exhibit 1-3 shows TAT distributions to the various funds—counties' share, Convention Center Enterprise Special Fund, TSF, and the general fund—for fiscal years 1987 through 2015.

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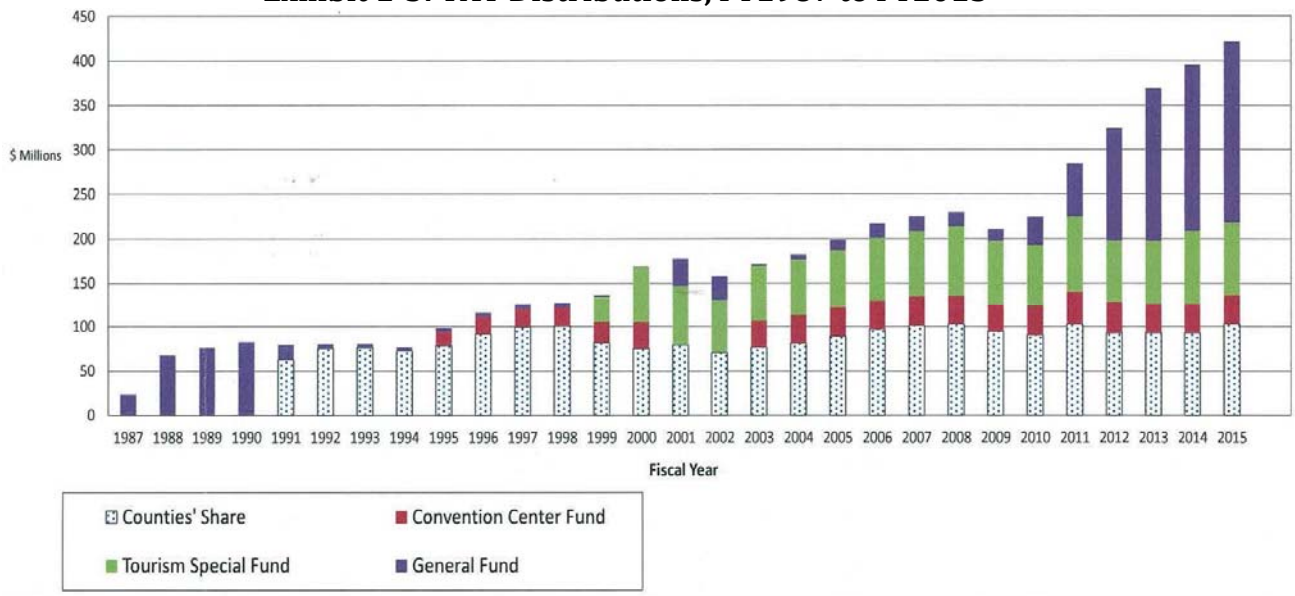
[26] Act 121 (SLH 2015).

[27] Act 134 (SLH 2015) specifies that funds appropriated to the State-County Functions Working Group—$165,000—shall come from the TAT revenues allocated to the counties for FY 2015-2016.

Exhibit 1-3: TAT Distributions, FY1987 to FY2015



SOURCE: Hawai‘i Department of Taxation

State-County Functions Working Group Study Approach, Timetable, and Reporting

The Working Group undertook an ambitious monthly meeting schedule from November 2014 through August 2015; additionally, it met twice monthly from September through December 2015. Delays in engaging consultant services affected the Working Group’s initially planned timetable and deliverables, but it sought to make up the lost time rather than eliminate work needed to address both Act 174 objectives.

Funding and Consultant Services

As directed by Act 174, the Office of the Auditor paid all expenses incurred by Working Group members during the performance of their duties, and sought reimbursement by requesting that such amounts be included in the legislative budget act of 2015. Although the Auditor’s budget request included Working Group funding, such funding was not included in the legislative budget bill; instead, the Legislature introduced two bills—one each in the House[28] and Senate[29]—requesting $165,000 for the State-County Functions Working Group ($150,000 for consultant services and $15,000 for actual expenses). The 2015 Legislature passed the House bill,[30] with funding of $165,000 to be appropriated out of the $103 million of TAT revenues allocated to the counties pursuant to Section 237D-6.5(b)(3), Hawai‘i

[28] House Bill 1214, 2015 Regular Session.

[29] Senate Bill 1359, 2015 Regular Session.

[30] House Bill 1214, House Draft 1, Senate Draft 1, Conference Draft 1, 2015 Regular Session.

Revised Statutes. The bill was signed by the Governor as Act 134, SLH 2015, on June 19, 2015.

The Working Group determined at its November 5, 2014, meeting that it would request $150,000 to engage a consultant to assist the group with carrying out its roles and responsibilities and in preparing the final report. Although Working Group members possess specialized knowledge about county and state government and the tourism industry, collectively they lack background in tax policy and the skill set needed to develop methodologies, formulas, and calculations to determine an appropriate allocation of the TAT. The Working Group envisioned that the consultant would conduct research, attend meetings, and present reports, analyses, and information to the Working Group at its monthly meetings, in addition to assisting the Working Group with presentations and briefings to the 2016 Legislature on the Working Group's TAT recommendations.

On August 19, 2015, the Working Group engaged the services of a consultant, Belt Collins Hawaii LLC, to assist with compilation of references and resources, data analysis, development of allocation models integrating data on resident and tourist populations, use of major public facilities and infrastructure, and the cost of operations and expansion of infrastructure, especially facilities on which visitor satisfaction depends. Belt Collins would also assist with final report development, among other tasks.[31]

Belt Collins Hawaii LLC Team Key Personnel

Belt Collins has been a Hawaiʻi planning and engineering firm since 1953. Key personnel on the Belt Collins team managed the work flow, conducted fiscal analyses of net costs of infrastructure, and produced documents and slides with the assistance of Belt Collins graphics staff. These key personnel brought years of experience in tax policy development, economic analysis of tourism, project management, long-range planning, infrastructure development and growth, among other specialties, and included:

> **James Mak, Ph.D.** Dr. Mak has been active in Hawaiʻi state policy development and the economic analysis of tourism since the 1970s. He wrote the definitive account of tourism policy in Hawaiʻi and has made pioneering studies of the transient accommodations tax.
>
> **Joseph Toy, CPA.** Mr. Toy's experience combines research and hands-on experience. He has advised private clients, the Hawaiʻi Tourism Authority, and State and county agencies on visitor industry issues and trends. With more than 30 years in management consulting and public accounting on an

[31] The consultant was procured via a request for proposals (RFP) with moneys appropriated by Act 134, SLH 2015.

international basis, he is the President and CEO of Hospitality Advisors LLC, which is based in Honolulu, Hawai'i.

Cheryl Palesh, P.E. Ms. Palesh served as the Principal-in-Charge and has extensive project management experience. With a varied background working on engineering, master planning and environmental studies as well as design and construction projects, Ms. Palesh has an understanding of community infrastructure requirements, long-range planning, and the counties' capital improvements programming.

John Kirkpatrick, Ph.D. Dr. Kirkpatrick served as the Project Manager. Dr. Kirkpatrick has contributed to analyses of existing and new development in relation to transportation impact fees, and has worked with county agencies and developers to project demand from resident and visitors for infrastructure and public services. He has also addressed policy implications of transient visitor units on Maui, drawing on real property data and a resident survey.

Consultant's Scope and Methodology

The Belt Collins team provided a series of memos to help the Working Group in its deliberations. Dr. Mak brought principles for taxation to the Working Group's attention, and provided current examples of State/county allocations in other jurisdictions. (His report is provided in Appendix C.) The team conducted a working session on the impacts of different models over time, and provided forecasts of allocations in both a growth period and a recessionary one. Additional research helped refine the forecasts to incorporate both TAT and transient occupancy tax (time share) revenues in the analysis. The model analysis was revised to show various model alternatives for consideration by the Working Group. The Belt Collins team helped draft this report.

Working Group Interim and Final Reports

The Working Group's interim report was delivered in December 2014 to the 2015 Legislature, governor, and each county mayor and council. This final report of the Working Group is being submitted to the 2016 Legislature, governor, and each county mayor and council, in December 2015 by the required deadline of 20 days prior to the convening of the 2016 regular session. It includes a summary of Working Group discussions, analyses, and work undertaken by the Belt Collins team, as well as the Working Group's conclusions, and recommendations. The Legislative Reference Bureau (LRB) assisted with drafting legislation, which is included in this report in a form suitable for introduction during the 2016 legislative session.

The Working Group intends to meet during the 2016 legislative session in order to monitor and respond to legislative inquiries on the Working Group's proposed

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legislation. The Working Group's Chair, Associate Justice Simeon Acoba (retired), and the Office of the Auditor will testify in support of the proposed legislation on behalf of the Working Group. Other Working Group members may testify on the proposal either in each member's capacity as a Working Group member or, alternatively, in each member's capacity as a county or State official, or as a representative of the tourism industry. The Belt Collins team will be available for testimony and technical expertise.

The Working Group looks forward to opportunities to explain its proposal to the Legislature's committees in informational briefings, upon the Legislature's request. The Working Group will cease to exist upon adjournment of the 2016 Regular Session, as directed by Act 174, SLH 2014.

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Chapter 2

Introduction

Over the years, the transient accommodations tax (TAT) has been the subject of considerable discussion and debate among policymakers regarding its effect as a significant revenue generator and funding source in the State. The economic downturn and slow periods of economic growth in recent years greatly lowered the amount of TAT and other tax revenues generated by the State, thus affecting the provision of government services to the community. Subsequently, the Legislature in 2009[1] increased the TAT and required that the additional revenues collected be deposited into the general fund. In 2011,[2] the Legislature placed a temporary cap on the counties' share of TAT revenues.

In 2014, the Legislature introduced House Bill 1671 (later signed into law as Act 174, Session Laws of Hawai'i 2014), which removed the $93 million cap on TAT revenues allocated to the counties and establish the distribution of these revenues as a percentage of TAT collected.[3] The purpose of the measure was to assist the counties financially so they could better support and enhance tourism and tourism-related services by ensuring that tax revenues derived from guest visits to the different islands of Hawai'i would help offset the costs of providing services that guests use while visiting the islands.[4]

The Legislature recognized that much of the cost associated with tourism is carried by the counties, including the ever-increasing costs of providing county services to these visitors. Counties maintain roads and parks and provide law enforcement officers and first responders who serve residents and visitors.[5] Further, counties have faced financial challenges in providing these county services since the cap on TAT revenues distributed to the counties was put in place in 2011.[6] While county testimony "characterize[ed] the cap as having been 'imposed' on the counties," the Legislature noted, "that in placing the $93 million cap into effect in 2011, the State

1 Act 61, Session Laws of Hawai'i 2009.

2 Act 103, Session Laws of Hawai'i 2011.

3 House Bill 1671, 2014 Regular Session.

4 Committees on Tourism and Public Safety, Intergovernmental and Military Affairs, Standing Committee Report No. 3063 on House Bill No. 1671, House Draft 1, Senate Draft 1, dated March 21, 2014, Regular Session of 2014, pp. 1-2.

5 Committees on Tourism and Public Safety, Intergovernmental and Military Affairs, Standing Committee Report No. 3063 on House Bill No. 1671, House Draft 1, Senate Draft 1, dated March 21, 2014, Regular Session of 2014, pp. 1-2.

6 Standing Committee Report No. 160-14, House Committee on Tourism, on House Bill No. 1671, House Draft 1, dated February 5, 2014, pp. 1-2.

effectively guaranteed the counties a historically high share of revenues."[7] The net effect of the cap, however, was to prevent the counties from sharing the additional TAT revenues that accrued with the growth in tourism.

After deliberation, the Legislature agreed that increasing the maximum amount of TAT revenues allocated to the counties would allow the counties to better provide for public safety, parks, road maintenance, and visitor-related services. However, it also believed that a study to determine the appropriate division of duties and responsibilities to provide public services should be conducted before permanently establishing TAT revenue allocations between the State and counties. In light of this belief, the measure was amended to change the amount of TAT revenues to be allocated to the counties to $103 million for fiscal years (FY) 2015 and FY2016, and $93 million for each fiscal year thereafter; to establish a working group to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services and to recommend the appropriate amount of TAT revenues to be allocated to the counties.[8]

Signed into law as Act 174, Session Laws of Hawai'i 2014, the measure established and directed the work of the State-County Functions Working Group (Working Group). This Working Group final report addresses both objectives of the act:

1. Evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and
2. Submit a recommendation to the Legislature on the appropriate allocation of TAT revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

Evaluate the Division of Duties and Responsibilities between the State and Counties Relating to the Provision of Public Services

During the Working Group's initial meetings in 2014, a broad array of foundational topics and issues related to its work on the division of duties and responsibilities between the State and counties was discussed. The Working Group researched and gained an in-depth understanding of the relevant legislative history and acts relating to TAT, including the TAT rate and distribution of TAT revenues. It also

[7] Committees on Tourism and Public Safety, Intergovernmental and Military Affairs, Standing Committee Report No. 3063 on House Bill No. 1671, House Draft 1, Senate Draft 1, dated March 21, 2014, Regular Session of 2014, pp. 1-2.

[8] Conference Committee Report No. 145-14 on House Bill No. 1671, House Draft 1, Senate Draft 1, Conference Draft 1, dated April 25, 2015, pp. 1-2.

sought to determine and understand what are *public services,* as referred to in Act 174, and the possible ways of measuring what these services are.

Looking at various resources and guides to county and state government, the Working Group reviewed the division of public services as articulated in the Constitution of the State of Hawaiʻi and the Revised Charter of Honolulu and Maui County, Kauaʻi County, and Hawaiʻi County Charters. Related to this, the group sought to understand both the division of public services between the State and the counties, and such division with respect to tourism. It gathered county and State data and sought to apply different formulas, standards, and guidelines to the topics and issues. It assessed the desirability, rationality, and objectivity of formulas, standards, and guidelines.

Ultimately, the Working Group agreed it would be reasonable to use the State and county comprehensive annual financial reports (CAFRs) as a starting point for discussion and analysis as CAFR categories reflect public services provided by government. The Working Group noted that there are some differences between State and county CAFR categories, but that such differences could be clarified and their corresponding expenditures normalized for comparison.[9] The group also cautioned, however, that this work was not a scientific analysis, but intended to provide a general idea as to expenditures by county and State governments.

Establishment and Assignment of Investigative Groups Pursuant to Sunshine Law

The Working Group established three investigative groups permitted under the sunshine law to identify the duties and responsibilities between the State and counties relating to public services and to identify visitor-related needs for State and county services:

1. County Duties and Responsibilities Investigative Group;
2. State Duties and Responsibilities Investigative Group; and
3. Visitor Industry Investigative Group.

Five to six Working Group members were assigned to each investigative group. The County Duties and Responsibilities Investigative Group's and the State Duties and Responsibilities Investigative Group's scope of investigation was to develop (1) a common template for the counties and State to evaluate the duties and responsibilities, considering CAFR data; and (2) allocation(s) based on tourism factors, including population. The Visitor Industry Investigative Group's scope of investigation was to review and summarize visitor industry and other views on visitor-related needs for State and county services. Investigative group final reports

[9] For example, Maui includes *public works* in its *highways & streets* category. Kauaʻi reports *transportation* and *bus service* in *public welfare*.

were accepted by the Working Group. All investigate group final reports are summarized below and can be found in the appendices.

State and Counties Comprehensive Annual Financial Report Expenditure Categories Reflect Public Services Provided

The State and County Investigative Groups determined that the State and County CAFR categories related to public services and have some nexus to tourism, except for the State categories of *interest expense, unemployment compensation*, and *nonmajor proprietary fund*. Exhibit 2-1 lists the State and County CAFR expenditure categories.

Exhibit 2-1: County and State CAFR Expenditure Categories, FY2013 and FY2014

County CAFR Expenditure Categories	State CAFR Expenditure Categories
General government	General government
Public safety	Public safety
Public works	Highways
Highways and streets	Conservation of natural resources
Sanitation	Health
Human services	Welfare
Culture & recreation	Lower education
Public welfare	Higher education
Utilities/Transportation	Other education
Debt service	Culture and recreation
Miscellaneous	Urban redevelopment and housing
Net transfer	Economic development and assistance
Capital outlay	Interest expense*
Proprietary funds	Airports
	Harbors
	Unemployment compensation*
	Nonmajor proprietary fund*

* The State Duties and Responsibilities Investigate Group determined that there was no nexus to tourism for these categories.

Source: Office of the Auditor based on County Duties and Responsibilities Investigative Group and State Duties and Responsibilities Investigative Group final reports

Some Working Group members noted limitations to reviewing expenditures alone and encouraged the group to review revenues. For example, County members noted that County revenues are related to tourism when they come from real property

taxes, specifically those paid by hotels and resorts. However, the Department of Taxation Tax Research and Planning Officer, who had been invited to speak at the April 1, 2015, Working Group meeting, said that it would be difficult to earmark TAT revenues for public services that benefit tourists, even though there may be some nexus between tax revenue and tourism. He also noted that the 1988 Tax Review Commission Report stated that 53 percent of costs for tourism are paid by the counties.[10] That report also addressed how tax responsibility and responsibilities for providing services should be divided between the State and Counties, and provided a breakout as to how much of the public outlays that directly support tourism is from the counties and the State.[11]

Working Group Observations Based on Investigative Group Work

General observations were made by the Working Group during presentations by investigative groups of their findings and final reports. These observations compare, contrast, and draw conclusions based on information provided by the three investigative groups formed to evaluate the division of duties and responsibilities between the State and counties.

Total county and State expenditures on tourism far exceed revenue collected by the TAT. Overall, county expenditures on tourism compared to all county expenditures are generally much higher than State expenditures on tourism compared to all State expenditures (City & County of Honolulu, 5.77 percent; Maui, 10.62 percent; Hawaiʻi, 7.99 percent; Kauaʻi, 19.06 percent; State, 4.4 percent). In fact, if the State's *welfare, lower education,* and *higher education* categories are removed from the State's list, the percentage of expenditures on visitors by the State and counties is roughly 53 percent to 47 percent. The allocation of tourism-related expenditures is not a precise number, however, and could be approximately closer to a 60/40 split, depending on the methodology used.

The present allocation of $93 million of TAT revenues to the counties does not cover county total expenditures on visitors of almost $236 million. In fact, $93 million falls short of the City and County of Honolulu's tourism-related expenditures of almost $116 million. The visitor industry is particularly important for Kauaʻi and Maui counties, where on any given day one in four persons is a visitor. Current allocation of TAT revenues among the counties is not tied to population, even though TAT legislative history reflects reliance on population. Rather, current distribution correlates roughly with visitor arrivals per county.

County Working Group members seek retention of the current TAT distribution rate among the counties. Current allocation of TAT revenues among the counties (City & County of Honolulu, 44.10 percent; Maui, 22.80 percent; Hawaiʻi, 18.60 percent;

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[10] *1988 Tax Review Commission Report, Advisory Commission on Intergovernmental Relations,* p. 300, Hawaiʻi Tax Review Commission (1988).

[11] See id., p. 301, Table VIII.1 Public Services With Direct Benefits for Visitors, Fiscal Year 1987, Hawaiʻi Tax Review Commission (1988).

Kaua'i, 14.50 percent) is almost the same as the individual county expenditures on visitors to all counties' expenditures on visitors (City & County of Honolulu, 49.05 percent; Maui, 25.09 percent; Hawai'i, 13.10 percent; Kaua'i, 12.75 percent).

Finally, most of Hawai'i's visitors are leisure travelers as compared to other destinations with a higher percentage of business travelers. The consensus among Working Group members is that general tourism marketing and promotion of Hawai'i is a high priority. The visitor industry identified three priority categories of visitor-related needs for State and county services: (1) transportation and parks and recreation, including airports, highways and roads, public transportation, harbors, and state and county parks; (2) public safety and housing, including police presence and addressing homelessness; and (3) culture, education, sanitation, and individually advertised units.

Investigative Group Report Summaries

County Duties and Responsibilities Investigative Group

The County Duties and Responsibilities Investigative Group performed a line-item by line-item review of each county's 2014 CAFR, identifying both total costs and those with a nexus to the visitor industry. CAFR category expenditures reflected the cost of public services provided by category. Each county normalized its CAFR reporting for consistency and to enable comparison, with some exceptions.[12] To calculate the visitor allocation of each county CAFR category expenditure, each expenditure was multiplied by the degree of visitor nexus as determined by the county group as *high*, applying a factor of 1.00, *moderate* of 0.50, *low* of 0.25, or *none* of 0.00. Both County and State Duties and Responsibilities Investigative Groups applied the same methodology for determining the visitor allocation on expenditures based on nexus, but carried out their work and analyses separately in their respective groups.

The county investigative group also relied on the 2013 Hawai'i Tourism Authority (HTA) visitor-day data[13] and 2013 Department of Business, Economic Development and Tourism (DBEDT) resident data[14] to determine the ratio of visitors to residents, visitor expenditures to total expenditures, and visitor expenditures statewide,

[12] For example, Maui County includes *public works* in its *highways and streets* category; thus, Maui did not report in the *public works* category. On Kaua'i, the *public welfare* category includes transportation and bus service; thus, Kaua'i did not report in the *utilities/transportation* category. See Appendix C for details of each county's normalized CAFR values.

[13] By dividing the total visitor days on each county by 365, the investigative group converted visitor days to a de-facto resident population: City & County of Honolulu (96,054 visitors), Maui County (54.233), Hawai'i County (29,255), and Kaua'i County(23,334).

[14] City & County of Honolulu (983,429 residents), Maui County (160,292), Hawai'i County (190,821), and Kaua'i County (69,512).

among other analyses. Exhibit 2-2 shows FY2014 total expenditures, visitor expenditures, and FY2013 visitor to resident ratio, by county.

Exhibit 2-2: County Total Expenditures and Expenditures on Visitors (FY2014) and Visitor to Resident Ratio (FY2013)

County	Total Expenditures	Expenditures on Visitors	Visitor to Resident (%)
City & County of Honolulu	$ 2,004,574,421	$ 115,670,580	8.90
Maui County	$ 557,071,759	$ 59,170,783	25.28
Hawai‘i County	$ 386,564,579	$ 30,888,669	13.29
Kaua‘i County	$ 157,769,811	$ 30,076,408	25.13
Total	$ 3,105,980,570	$ 235,806,440	12.63

Source: County Duties and Responsibilities Investigative Group’s final report (Appendix C)

The county investigative group reported on five major areas:

1. County expenditures on visitors to total operating expenditures;
2. Individual county expenditures to aggregate expenditures of all counties;
3. Individual county expenditures on visitors to total county expenditures statewide on visitors;
4. Percentage of total county TAT allocation; and
5. Percentage of each county’s portion of total TAT after allocations for debt service and HTA.

The county investigative group’s report is in Appendix C.[15] The report provides dollar figures and other data used in calculating reported percentages.

County expenditures on visitors to total operating expenditures. Each county determined its total operating expenditures for visitors, not including capital improvement projects and divided it by the total operating expenditures for each county, as shown in Exhibit 2-3. Overall, the exhibit highlights how important the visitor industry is for Maui and Kaua‘i counties by showing the amount of expenditures allocated to the industry, as compared with the City & County of Honolulu and Hawai‘i County.

[15] Additional information and Working Group discussion can be found in the April 1, May 6, and June 3, 2015 meeting minutes. Available at http://auditor.hawaii.gov/task-forceworking-group/.

Exhibit 2-3: County Expenditures on Visitors as a Share of Total County Operating Expenditures, FY2014

County	County Expenditures on Visitors as a Share of Total Operating Expenditures (%)
City & County of Honolulu	5.77
Maui County	10.62
Hawai‘i County	7.99
Kaua‘i County	19.06
All Counties combined	7.59

Source: County Duties and Responsibilities Investigative Group's final report

Individual county expenditures to aggregate expenditures of all counties. Each county determined its total operating expenditures, divided by total operating expenditures of all four counties, as shown in Exhibit 2-4.

Exhibit 2-4: Each County's Expenditures to All County Expenditures, FY2014

County	County Expenditures to All Counties' Expenditures (%)
City & County of Honolulu	64.54
Maui County	17.94
Hawai‘i County	12.45
Kaua‘i County	5.08
Total	100.00

Source: County Duties and Responsibilities Investigative Group's final report

Individual county expenditures on visitors to the total county expenditures statewide on visitors. Total operating expenditures for visitors in each County were divided by the operating expenditures for total visitors for all four counties, as shown in Exhibit 2-5.

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Exhibit 2-5: County Expenditures on Visitors in Relation to Total County Expenditures Statewide on Visitors, FY2014

County	County Expenditures on Visitors to Total County Expenditures Statewide on Visitors (%)
City & County of Honolulu	49.05
Maui County	25.09
Hawai‘i County	13.10
Kaua‘i County	12.75
Total	100.00

Source: County Duties and Responsibilities Investigative Group's final report

Percentage of total County TAT allocation. Exhibit 2-6 reflects the FY2014 allocation rate among the counties:

Exhibit 2-6: County TAT Allocations, FY2014

County	County TAT Allocation to All Counties' TAT Allocations (%)
City & County of Honolulu	44.10
Maui County	22.80
Hawai‘i County	18.60
Kaua‘i County	14.50
Total	100.00

Source: County Duties and Responsibilities Investigative Group's final report

Percentage of each County's portion of total TAT. Exhibit 2-7 shows each county's portion of the total TAT after allocations to the Convention Center Enterprise Special Fund and TSF for HTA.

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Exhibit 2-7: County Shares of Total TAT After Allocations for Legislative Appropriations, FY2014

County	County's Share of Total TAT After Debt Service and HTA Allocations (%)
City & County of Honolulu	19.76
Maui County	10.21
Hawai'i County	8.33
Kaua'i County	6.50
Total	44.80

Source: County Duties and Responsibilities Investigative Group's final report

The County Investigative Group also observed that the existing TAT allocation distribution among the counties is very similar to the percentage of each County's expenditures on visitors to the aggregate counties' expenditures on visitors, as shown in Exhibit 2-8.

Exhibit 2-8: TAT Allocations Among Counties and County Expenditures on Visitors to Total County Expenditures Statewide on Visitors, FY2014

County	TAT Allocations among Counties (%)	County Expenditures on Visitors to Total County Expenditures Statewide on Visitors (%)
City & County of Honolulu	44.10	49.05
Maui County	22.80	25.09
Hawai'i County	18.60	13.10
Kaua'i County	14.50	12.75
Total	100.00	100.00

Source: County Duties and Responsibilities Investigative Group's final report

Finally, the Working Group observed that the current $93 million of TAT allocations to the counties falls short of funding needed for all counties' expenditures on visitors as shown in Exhibit 2-9; in fact, $93 million does not cover the City & County of Honolulu's expenditures on visitors. However, the county group pointed out that

the counties also generate revenues through real property taxes, including those levied on hotels and resorts.

Exhibit 2-9: County Expenditures on Visitors and TAT Allocations to Counties, FY2014 (in millions)

County	County Expenditures on Visitors	TAT Allocations
City & County of Honolulu	$116	$41.01
Maui County	$59	$21.20
Hawai‘i County	$31	$17.30
Kaua‘i County	$30	$13.49
Total	$236	$93.00

Source: County Duties and Responsibilities Investigative Group's final report.

State Duties and Responsibilities Investigative Group

The State Duties and Responsibilities Investigative Group performed a review of the State's 2014 CAFR. The State analysis dealt with functional categories (not the more specific line items used by the County Investigative Group). Utilizing much the same methodology as the county group, the State group identified both total costs and those with a nexus to the visitor industry. To calculate the visitor allocation of the CAFR expenditure, the expenditure was multiplied by the degree of visitor nexus, as determined by the State group as high and applying a factor of 1.00, moderate of 0.50, low of 0.25, or none of 0.00. Exhibit 2-10 shows FY2014 total State expenditures and visitor expenditures. For the State group's final report, see Appendix D.[16]

Exhibit 2-10: Expenditures on Visitors to State Total Expenditures, FY2014 (in thousands)

	Total Expenditures	Expenditures on Visitors	Expenditures on Visitors to Total Expenditures (%)
State of Hawai‘i	$10,302,377	$453,152	4.4

Source: State Duties and Responsibilities Investigative Group final report (Appendix D)

[16] Additional information and Working Group discussion can be found in the April 1, May 6, and June 3, 2015 meeting minutes. Available http://auditor.hawaii.gov/task-forceworking-group/.

The State group raised three questions for the State-County Functions Working Group to address when determining TAT allocations:

1. Act 61 (SLH 2009) increased the TAT rate by 2 percent—from 7.25 percent to 9.25 percent—and required all additional revenues collected to be deposited to the State general fund.

   Question: Should the additional 2 percent in TAT revenues be excluded from the Working Group's study and analysis and allocation recommendations?

2. The TAT allocation can be based on tourism-related services or general government services provided.

   Question: Should the Working Group's final report provide information on both allocation methods—tourism-related and general government services provided—so the Legislature has information to make an informed decision?

3. **Question:** Should TAT allocations be based on expenditures or on both expenditures and revenues related to visitors?

The Working Group discussed but did not reach final decision or consensus on these three issues at its May 6, 2015, meeting. Instead, it deferred the issues, agreeing to consider them later as part of its allocation deliberations.[17]

Visitor Industry Investigative Group

The Visitor Industry Investigative Group members reached out to each member's contacts with a common and open-ended request to identify priority visitor-related needs for State and county services. Contact groups included Outrigger Enterprises employees at 31 properties on four islands; members and others on the mailing lists of the Hawai'i Lodging & Tourism Association and the Waikiki Improvement Association; the Hawai'i Tourism Association and other organizations focused on the tourist industry; and visitor industry retail and other partners, among others. Outreach was conducted online and through surveys on the neighbor islands. Members reviewed the outreach results and compared them against each member's own anecdotal information and overall view of the visitor industry. Finally, members agreed on an overall summary of the results organized generally according to State and county CAFR expense categories.

In general, visitor industry and other views on visitor-related needs for State and county services break down into three priority categories:

[17] While no formal decisions were taken on these questions, they were raised again in evaluating various allocation models, and the Working Group's selection of an allocation model incorporated its members' shared views on these topics.

Priority 1—Direct needs that are most important across the board (transportation and parks and recreation);

Priority 2—Direct needs that are very important but not as important as Priority 1 and/or not universal (public safety and housing); and

Priority 3—Some or all of direct needs not as important as Priorities 1 and 2, direct needs targeted at more specific areas that are not universal, and indirect needs which are important to laying the foundation for addressing direct visitor needs (culture, education, sanitation, and individually advertised units).

Priorities were further broken down into focus areas, as shown in Exhibit 2-11.

Exhibit 2-11: Visitor Industry Priority Categories and Focus Areas

Priority	Focus Area
Priority 1 Transportation and Parks and Recreation	**Airports:** maintain and improve airports, especially general conditions, signage, restrooms, and visitor assistance.
	Highways and roads: maintain and improve highways and roads, both general conditions and specifics, including directional signage, non-vehicular access, and litter and overall beautification.
	Public transportation: assure fair and accessible public transportation.
	Harbors: for cruise visitors especially, improve major harbors.
	State and county parks: improve general conditions of State and county parks, especially beach parks and trails. Related areas include lifeguards, restrooms, trash and beach erosion, and park-specific public safety.
Priority 2 Public Safety and Housing	**Police presence:** increase police presence in destinations focused on or frequented by visitors, especially in Waikīkī but also across all islands, including parks and other visitor destinations.
	Housing: address homelessness, especially in Waikīkī but also in non-Waikīkī tourist destination areas statewide.
Priority 3 Culture, Education, Sanitation, and Individually Advertised Units (IAUs)	**Culture:** educate to preserve and enhance the diverse cultures of Hawai‘i that contribute to Hawai‘i’s unique visitor experience.
	Education: train visitor industry workforce.
	Sanitation: address sanitation specifically at visitor destinations, including airports/roads and parks/recreation areas, but also generally to handle visitor and resident demand.
	IAUs: eliminate illegal rentals and assure full compliance with visitor-specific requirements, including TAT payment.

Source: Visitor Industry Investigative Group final report (Appendix E)

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The visitor industry group's report also recognized that government contributes in other ways—both direct and indirect—to fulfillment of visitor-related needs for services. Finally, the group did not address general tourism marketing and promotion of Hawai'i, although the visitor industry continues to view this as a high priority, visitor-related need for State and county services. The group's full report, Visitor Industry Views on Visitor-Related Needs for State and County Services, is included as Appendix E.[18]

Further Analysis of Public Service Expenditures

The consultant team conducted follow-up analyses of FY2014 CAFR data. The aim was to use information and categories in standard financial reports to provide additional insight into the ratio of expenditures by the State and counties. The analyses were presented to the Working Group for discussion at its meetings of September 16, October 7 and October 21, 2015. Exhibit 2-12 shows the results presented by the consultant.

Exhibit 2-12: State's and Counties' 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%

NOTE: The ratios shown in rows 1 through 3 are restatements and extensions of the findings of the investigative groups. Row 4 presents data from earlier CAFR reports. Rows 5 through 9 present new analyses.

SOURCE: Belt Collins Hawaii Team presentation to Working Group

[18] Additional information and Working Group discussion can be found in the April 1, May 6, and June 3, 2015 meeting minutes. Available at http://auditor.hawaii.gov/task-forceworking-group/.

The analysis draws on CAFR tables prepared by the State and counties for FY2014.[19] Those tables group activities of each jurisdiction into three areas:

- **Primary government:** This grouping covers general government plus many services (including public safety, highways, education, welfare and human services, conservation of natural resources, sanitation, and interest on long-term debt).
- **Business-type activities:** Each jurisdiction includes somewhat different activitites under this heading, depending on its administrative structure. State business-type activities include airports, harbors, unemployment compensation and nonmajor proprietary funds. The City and County of Honolulu considers housing, sewer, solid waste and public transportation to be business-type activities. Maui County lists housing, the municipal golf course, and the Department of Water Supply as business-type activities. Hawaiʻi County includes health, education, and welfare in this grouping, while Kauaʻi County includes housing, server and golf.
- **Component units:** These are semi-autonomous agencies. For the State, component units include the University of Hawaiʻi, the Hawaiʻi Housing Finance and Development Corporation, the Hawaiʻi Public Housing Authority, the Hawaiʻi Health Systems Corporation, HTA, the Hawaiʻi Community Development Authority, and the Hawaiʻi Hurricane Relief Fund. County component units include water (for all counties except Maui) and the Honolulu Authority for Rapid Transportation.[20]

The CAFR reports include columns of program expenses for functional categories (e.g., highways, health), followed by tallies of program revenues. The net expenditures are expenses minus revenues, as shown in the CAFR reports. (The reports tabulate net amounts as net revenues (expenses); since the Working Group's concern is with expenditures, the expenses are shown as positive numbers in Appendix F, and net revenues as negative.)

The net expenditure analyses shown in rows 5, 6, 8, and 9 of Exhibit 2-12 draw on the net revenues (expenses) columns of the CAFR tables. Again, the "Primary Government Activities" in rows 7 to 9 of that exhibit are from the reports. The sorting of some functional categories as "direct" expenditures related to tourism follows the division of functional categories presented by the State Duties and Responsibilities Investigative Group (in Appendix D).

[19] State CAFR for FY2014, page 32; Honolulu CAFR, pp. 36-37, Maui CAFR, p. 40, Hawaiʻi County CAFR, p. 26, and Kauaʻi CAR, p. 30.

[20] In Appendix F, the Maui Department of Water Supply is treated as a component unit, to be comparable with the other counties.

While the investigative groups analyzed some government expenditures as indirectly related to tourism, the consultant team found the methodologies of those groups to vary, so that a third-party analysis comparing State and County indirect expenditures would involve developing a definitive methodology. The consultant team did not find that task possible in the time available.

The consultant team did not find that any single analysis provides a definitive account of the public service expenditures of the State and Counties. The Working Group reviewed a range of indices. The Allocation Models Investigative Group considered a 60/40 division between the State and counties as a reasonable approximation for use in one model. After reviewing the Investigative Group reports and the consultant's analyses (in Appendix F), the Working Group derived a judgment-based evaluation that a 55/45 division represented the division of duties and responsibilities between the State and Counties.

Public Testimony on Allocations

Testimony was provided by Jim Howe (Ocean Safety Division, Department of Emergency Management, City and County of Honolulu), Margaret Willie (Member, Hawai'i County Council) and Mike White (Chair, Maui County Council) as private citizens.[21]

- Mr. Howe emphasized the importance of ocean safety for visitors and residents. He noted that the funds available for lifeguards and emergency medical services left many beaches in Hawai'i without much-needed ocean safety services.
- Ms. Willie pointed to the historical distribution, whereby the counties received 44.8 percent of TAT collections until 2008. She understood legislators to promise to reinstate the 44.8 percent share as soon as economic conditions improved.
- Mr. White presented comparative data on lodging taxes in various United States jurisdictions, drawing on the *2014 HVS Lodging Tax Report*, showing that the average share of lodging revenues going to local governments was 9.08 percent (vs. 2.26 percent to Hawai'i counties. He argued that the cost of services such as police and fire protection has increased far more than TAT revenues to Maui County have. Mr. White argued that allocation of 50 percent of TAT revenues to the counties would be justified. The result would still be a smaller share of lodging costs than the share accruing to the average local government in the report's national sample.

[21] See Working Group minutes for April 1, May 6, July 1, August 5, October 7 and October 21, 2015. Available at http://auditor.hawaii.gov/task-forceworking-group/

Chapter 3

Submit a Recommendation to the Legislature on the Appropriate Allocation of Transient Accommodations Tax Revenues

The second objective of the Working Group was to submit a recommendation to the Legislature on the appropriate allocation of transient accommodations tax (TAT) revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

The Working Group reached its recommendation through input from an investigative group, presentation of forecasts, scenarios and models by the consultant team, and group discussion of models, along with principles for forecasting and allocation.

Allocation Models Investigative Group

Establishment of the Investigative Group

At the May 6, 2015 meeting, the Working Group established the Allocation Models Investigative Group to consider various models for allocating the TAT revenues. The five-member group was asked to identify a range of models, assess the advantages and disadvantages of different models, and contribute to the discussion of models. The investigative group met and developed a report on progress to date, shared with the Working Group at the June 3, 2015 meeting. The investigative group's findings were presented as a basis for considering allocation issues, not as the only recommendation its members would consider. Appendix G is the investigative group's report.

By the June 3 meeting, it appeared likely that one of the bills providing funds for a consultant would be signed into law. The Allocation Models Investigative Group suggested that the group would work with the consultant on developing and further refining models.

Allocation Models Investigative Group Report

The investigative group reported on four procedures for allocation:

1. Allot TAT funds according to the proportionate share of tourism expenses incurred by the State and counties;
2. Allot TAT funds according to the historical intent of TAT legislation passed over the years;

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3. Use the current allocations as a guide, and account for the political reality that the State Legislature will seek to fund other programs with TAT revenues; and
4. Instead of developing allocation models, the Legislature could grant the counties, as well as the State, authority to tax visitors.

The investigative group identified parameters for an allocation model that it recommended to the Working Group for further discussion:

1. Allocate the first $82 million of TAT revenues to the Hawai'i Tourism Authority (HTA). This first-priority allocation would give the visitor industry assurance that their taxes go to a body over which they have some control. It would assure predictability for budgeting of tourism marketing and other HTA activities.
2. Allocate 90 percent of the remaining revenues to be split between the State and counties, with 60 percent of that amount going to the State and 40 percent to the counties, but in either case, the amount would be no less than $100 million. The 60/40 division emerged from discussions of State and county expenditures related to tourism; it was proposed as a point of convergence for the various expenditure analyses considered to date.
3. Leave the remaining funds for the Legislature's discretion, with the recommendation that these funds be allocated for visitor-related expenditures.

Should the TAT revenues amount only to $282 million in a given year, the allocation would then be $82 million for HTA, and $100 million each for the State and counties. No funds would then remain for discretionary spending. Should the total be even smaller, the allocation for HTA would not change, and the remaining funds would still be divided on a 60/40 basis between the State and counties. (The TAT total would have exceeded $282 million as of 2011, given the current 9.25 percent collection rate.)

Consideration of Models in Relation to Potential TAT Revenues, to 2025

Scenarios Prepared for Review by the Working Group

In order for the Working Group to consider the implications of allocation models over several years, the consultant team developed scenarios of annual TAT revenues under different economic conditions. In discussions with the Working Group, a ten-

year horizon was identified as useful. Potential annual TAT revenues were estimated for fiscal years (FY) 2016 through FY2025.[1]

- A growth forecast was developed to take into consideration the current level of combined TAT and transient occupancy tax (TOT) revenues, the range of accommodations and lodging prices, and anticipated changes to the visitor plant inventory[2]. The forecast builds on the information collected by Hospitality Advisors LLC (HA) and Smith Travel Research.[3] It yields estimates of TAT revenues from hotels, condominiums, individual visitor units and time share units, as well as TOT revenues from time share properties.

  The growth forecast was viewed by some members of the Working Group as aggressive. However, it combines the effect of changes in room rates, occupancy, and the overall visitor plant, not just revenues from existing properties. Also, the forecast revenues increase on average by 4.9 percent annually over ten years, while the historical tax base increased by much the same amount from 2005 to 2015, and by 4.6 percent on average annually from 2000 through 2015.

- A recession scenario was developed using the historical changes in the estimated TAT tax base over the period 2005–2015. (Changes in the tax base are independent of the specific TAT rate in any given year.) The scenario starts from the actual FY2015 revenues, then the TAT revenues are assumed to change by the same annual rates of change as in the historical period. This procedure created a "what if" model of the impact of a recession on TAT allocations. The changes in the historical tax base are shown in Exhibit 3-1.

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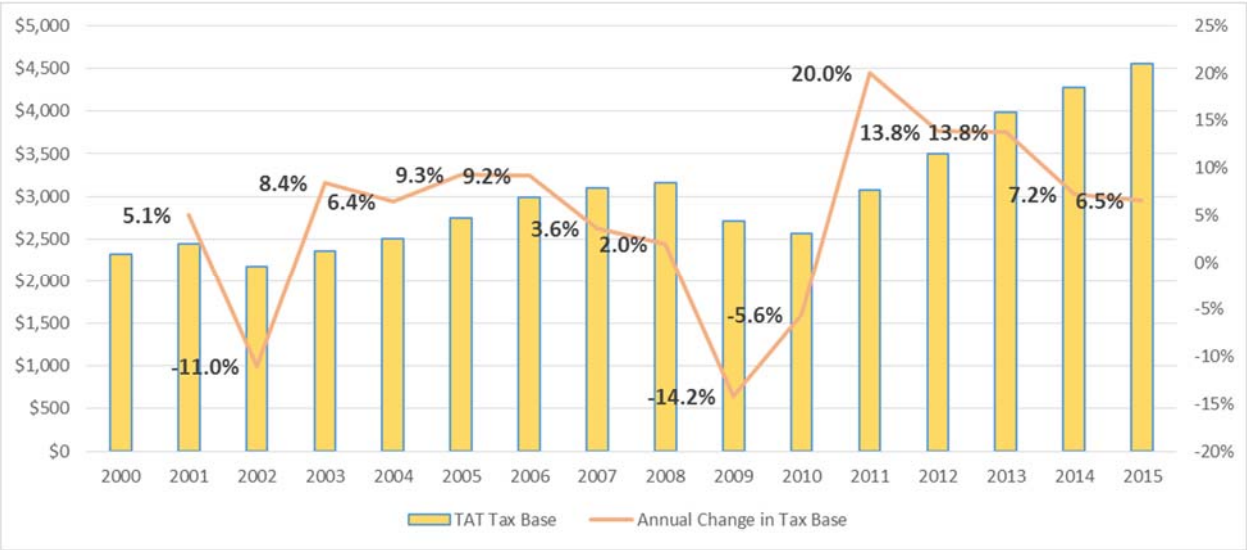
1 Dr. Mak notes that these estimates are properly termed simulations, not forecasts. Tests of models under different economic conditions, rather than predictions, are at issue. In this report, the term "forecast" is retained for the analysis derived from the Hospitality Advisors LLC account of the visitor industry, while the recessionary estimate is termed a "scenario."

2 State Department of Taxation reports deal with the combined TAT/TOT revenues, rather than two distinct revenue streams. References to the TAT tax base and to revenue scenarios similarly deal with the combined revenues.

3 The HA/Smith Travel Research information combines data on rates and occupancy collected at weekly intervals with information collected on a calendar-year basis. For this report, HA developed estimates of TAT revenues from the types of property included in its surveys, along with the time share occupancy that leads to TOT revenue—an item not included in the surveys. Forecasts of average daily rates and occupancy were based on HA's knowledge of the market and in-house information rather than a new market survey. The forecast of revenues was next converted to fiscal years. The forecast is meant to provide a basis for policy consideration, rather than budgeting.

Exhibit 3-1: Changes in the Historical TAT Tax Base, 2000 to 2015



NOTE: Annual tax base is in millions of current dollars.

SOURCE: Adapted from J. Mak, *Sharing TAT Revenues in Hawai'i: A Background Paper (2015),* included in this report as Appendix B.

The annual TAT/TOT revenues under the two scenarios are shown in Exhibit 3-2.[4]

The scenarios deal with statewide revenue collections. As members of the Working Group noted, conditions could be much more extreme, especially in a recession, for particular areas or islands.

To consider the potential impacts of inflation over the forecast period, changes in the Consumer Price Index for Urban Consumers (CPI-U) in Honolulu were extrapolated from the "Outlook for the Economy" forecast provided by the State Department of Business, Economic Development and Tourism (DBEDT).[5] That forecast extends only a few years into the future. For the remainder of the forecast period, the annual change in CPI was held constant at 2.7 percent increase per annum.

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4 Scenario amounts and rates of change in this report differ slightly from ones considered during Working Group meetings. First, the HA forecast was presented in draft form, with the aim of refining it in light of information from the Department of Taxation. However, the department was not able to provide data requested on TOT, as distinct from, TAT collections, so this information was inferred. Next, the annual rates of change in the recessionary scenario were revised to reflect current, not constant, values in the historical tax base. Also, the historical period used to generate the recessionary scenario was changed from 2004–2014 to 2005–2015.

5 "Outlook on the Economy" in the *Quarterly Statistical and Economic Report for the Third Quarter 2015,* issued in August 2015. Available at http://dbedt.hawaii.gov/economic/qser/.

Exhibit 3-2: Potential Statewide Annual TAT/TOT Collections, FY2015–FY2025

Fiscal Year	TAT Revenues ($ millions)		Annual Change	
	HA Forecast	Recession Scenario	HA Forecast	Recession Scenario
2015	$ 421	$ 421	—	—
2016	$ 450	$ 460	6.8%	9.2%
2017	$ 474	$ 476	5.4%	3.6%
2018	$ 497	$ 486	4.9%	2.0%
2019	$ 520	$ 417	4.6%	-14.2%
2020	$ 543	$ 393	4.5%	-5.6%
2021	$ 568	$ 472	4.5%	20.0%
2022	$ 592	$ 538	4.2%	13.8%
2023	$ 623	$ 612	5.2%	13.8%
2024	$ 649	$ 656	4.3%	7.2%
2025	$ 678	$ 699	4.4%	6.5%
TOTAL 2016–2015	$ 5,594	$ 5,208	—	—

SOURCE: Belt Collins Hawaii LLC.

The same CPI assumptions were used with the growth and recession scenarios. Members of the Working Group noted that rates of inflation change in different economic conditions, and the current assumptions are part of a growth forecast. The point was recognized, but no basis for alternative inflation assumptions was evident.

Alternative scenarios considered but not used for evaluation in this report included:

- The State's long term forecast for overall economic growth and for visitor spending.[6] This forecast is provided in constant dollars, and avoids consideration of inflation. Furthermore, it estimates total visitor spending, not spending on accommodations alone. Accordingly, it is too general for use in the current study.
- The federal guidance for assessing the value of future spending in light of anticipated changes in the value of Treasury bills. This guidance is presented for both current and constant dollars, so the difference between the anticipated value of Treasury bills (in current or "nominal" dollars) and the

[6] DBEDT, *Population and Economic Projections for the State of Hawai'i to 2040.* March 2012. http://dbedt.hawaii.gov/economic/economic-forecast/2040-long-range-forecast/

"real" value in constant dollars provides an estimate of inflation over the period of study. The most recent version of the guidance, issued in December 2014 for use in 2015, anticipates even lower average annual inflation than the estimates used for this study.[7]

- In presentations to the Working Group, versions of the recession scenario based on the historical tax base in constant year 2000 dollars were considered. This approach combined the impacts of the recessionary period with an assumption that lodging revenues would not increase with inflation. This could be considered an extreme stress test.

The Working Group discussed additional factors that could affect the visitor industry and TAT revenues in the coming years. These are described below, after considering the Working Group's recommendations.

Models Considered by the Working Group

The consultant team compiled a list of models discussed by the Working Group, to which it added variants responsive to members' requests to review allocations with fixed numbers (from year to year) and ones changing with inflation. The models can be summarized and arranged in terms of their complexity. The models and their variants are provided in Appendix H.

1. Simple Shares Model, TAT revenues divided into three shares

20%	Tourism Special Fund (TSF)
32%	Counties
48%	State of Hawai'i

All shares would grow or contract along with revenues. Existing legislative appropriations other than the TSF would come from the State share.

This allocation incorporates the 60/40 ratio that members of the Working Group found reasonable as a basic division between the State and counties, since the ratio of State and counties shares in the model—48 percent to 32 percent—is also a 3:2 ratio.

[7] The current federal guidance allows for inflation below two percent per year for periods up to 30 years. Office of Management and Budget, *Circular A-94, Appendix C: discount rates for cost-effectiveness, lease purchase, and related analyses. Revised version issued in December 2014.* https://www.whitehouse.gov/omb/circulars_a094/a94_appx-c.

2. Simple Shares Model, alternative shares

20%	TSF
35%	Counties
45%	State of Hawai‘i

This allocation was developed by the consultant as a simple alternative without any further discussion of the appropriate ratio of State to county allocations.

3. Shares Model, with TSF protected against downturns

1. TSF amount set by Legislature ($82 million for FY2015, per Act 121, SLH 2015)

2. Remainder split by State and counties on a 60/40 basis.

Two versions of this model were considered: (1) the TSF amount was a fixed amount through 2025; (2) the TSF amount changing over time with anticipated annual inflation.

4. Shares Model, with existing special funds increasing with inflation

1. Special funds protected (with FY2015 amounts shown).

$82.0 million	TSF, starting at $82 million and changing with inflation
$26.5 million	Convention Center Enterprise Special Fund
$1.5 million	Turtle Bay Conservation Easement Special Fund
$3.0 million	Special Land Development Fund (DLNR)
$113.0 million	in FY2015

2. Shares of remainder of TAT funds

40%	Counties
60%	State of Hawai‘i

At the October 7 meeting, a version of this model with all special funds indexed to inflation was considered. For the October 21 meeting, the Working Group considered versions without indexing, and with indexing of the TSF and the DLNR Special Land Development Fund. (The remaining special funds were viewed as set obligations of the State, not changing from year to year.)

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5. Current Distribution

1. Legislative appropriations:

$1.5 million	Turtle Bay Conservation Easement Special Fund
$26.5 million	Convention Center Enterprise Special Fund
$82.0 million	TSF (with some $1.4 million directed to specific ends)

2. Counties: $103 million for FY2015, FY2016; $93 million for later years

3. Remainder to State, with $3 million allocated to Special Land Development Fund

6. "Historic Intent" Model devised by Allocation Models Investigative Group

This model was developed to follow the allocations made at various times by the Legislature.[8]

1. Assuming the TAT rate is 9.25 percent, allot the first 5 percent of TAT collections (i.e., 54.054 percent of total revenues) as follows:

95%	to the counties
5%	to the State (administration)

2. Take the next 2.25 percent (24.324 percent of revenues) and allocate it to amortization of Convention Center and to HTA.

3. Allocate remaining 2 percent (21.622 percent of revenues) to the State.

7. Three-Stage Model Presented by Allocation Models Investigative Group

1. Guaranteed to TSF: $82 million;

2. 90 percent of remainder divided 60/40 for State and counties, of which $100 million each would be guaranteed for the State and the counties; and

3. 10 percent of remainder reserved for legislative discretion, with recommendation that funds spent on visitor-related expenditures.

[8] The Allocation Model Investigative Group memo, dated May 29, 2015, identified shares of 5%, 2.5% and 2%—totaling 9.5 percent, not the 9.25 percent rate of the TAT. The second share has been revised here to match the sequence of increases in the TAT over time.

Existing appropriations for the Convention Center Enterprise Special Fund, the Turtle Bay Special Fund and the Special Land Development Fund would be allocated from the State's Stage 2 share (i.e., the 60 percent of 90 percent above).

Should TAT revenues available to be divided 60/40 in Stage 2 amount to less than amount needed to cover anticipated needs of the State and counties, the difference would be made up from (a) the legislative discretionary Stage 3. and, if necessary, the State's and counties' Stage 2 amounts (with the 60/40 share perpetuated between them).

Indexing of the TSF share and of the floors for the State and counties was considered but not used in the Allocation Models Investigative Group's original version of this model.

8. Three-Stage Model Variant

1. Guaranteed to TSF: $82 million plus growth with inflation.

2. 90 percent of remainder divided 60/40 for State and counties respectively, of which $100 million each would be guaranteed (i.e., the State share or the counties' share would not drop below $100 million).

3. 10 percent of remainder for legislative appropriations, to include set-asides for Turtle Bay, Convention Center, Special Land Development Fund, and the remainder for legislative appropriations as of 2015 or later.

   If the 10 percent is not enough to cover the existing legislative appropriations, the State and counties would cover these from their Stage 2 moneys.

This model was considered in versions with no indexing, with the TSF amount indexed, and with both the TSF and the *minima* for the State and counties indexed.

9. "Lessons Learned" Model

1. Baseline distributions (set amounts for FY2015, changing over time with inflation)

$82 million	TSF
$103 million	Counties
$103 million	State

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a. If TAT revenues exceed 120 percent of the Stage 1 baseline distributions, distribute next 20 percent in much the same proportions:

28.50%	TSF
35.75%	Counties
35.75%	State

b. If TAT revenues do not exceed 120 percent of the Stage 1 baseline, all of this increment goes to State.

This model was developed by the consultant in an attempt (a) to insure predictability, even in recessionary economic circumstances and (b) to use baseline figures derived from the current allocation. The Working Group viewed it as too cumbersome to consider further.

Implications of the Models under Growth and Recession Scenarios

At the October 7 and October 21 meetings, the Working Group reviewed allocations based on the above models, combined with growth and recession scenarios. At the October 7 meeting, the consultant team introduced the possibility that some amounts or floors would be indexed to vary annually with changes in the cost of goods. At both meetings, members of the Working Group suggested alternative shares for consideration.

The set of models selected for the October 21 meeting is in Appendix H.[9] This appendix incorporates refinements in the scenarios that were completed after that date; the scenario values and allocations are not quite the same as the ones debated at the meeting. A key difference is that the allocations for FY2015 and FY2016 are now shown as set by Acts 174 (SLH 2014), Act 117 (SLH 2015), and Act 121 (SLH 2015), since the 2016 Legislature will be concerned with budgets for FY2017 and later years. Allocations set by those acts are highlighted in the appendix tables.

Recommendations

Points of General Agreement or Consensus in Working Group discussions

The Working Group had wide-ranging discussions of allocation strategies, along with the advantages and disadvantages of various models. While members had distinct points of view on several topics, the Working Group as a whole appeared to reach general agreement on several issues. This account makes explicit perspectives that support the Working Group's final recommendation, but were not the subject of formal votes. Three points emerged from the debate: (1) support for the visitor

[9] The model discussed on October 21, 2015 is available as part of the handout for that meeting, http://files.hawaii.gov/auditor/agendas/TATHandout10-21-15.pdf.

industry through TSF, (2) removal of caps on allocations, and (3) key principles for allocation between the State and counties.

Support for the visitor industry via TSF

TAT affects Hawai'i's visitor industry's competitive stance in relation to other visitor destinations around the world. TAT revenues should be allocated in part to support the visitor industry (through marketing and infrastructure). That allocation should be predictable, so that the industry and its advocates at HTA can plan and budget activities to effectively support Hawai'i as a destination.[10]

Support for the visitor industry should be assured in times of recession as well as economic growth, so marketing efforts can help to reboot visitor arrivals and spending.

The allocation should be sufficient to support a continuing work program. Since the costs of marketing and similar activities change over time, the allocation cannot be a set dollar amount, continuing from year to year, but should vary with changes in the price of goods and services.

The Working Group decided to use the Honolulu Consumer Price Index for Urban Consumers (CPI-U) as the basis for annual adjustments in the funds allocated to the Tourism Special Fund.

The Working Group considered models in which tourism funding was determined as a share of total TAT revenues. This approach was found unacceptable for two reasons: (1) tourism funding is most needed at times when TAT revenues decline; and (2) the amount of tourism funding should be related to HTA expenditures, not TAT revenues.

Removal of caps on allocations

In recent years, allocations to the counties have been "capped," i.e., limited to specific dollar amounts. The Working Group appreciated that recipients would benefit from a predictable allocation strategy, but that allocations should be capped only where they reflect past commitments by the Legislature. Dollar caps are not appropriate for allocations to the counties. The counties should share with the State in increased revenues due to growth in tourism.

Should the Legislature find it appropriate to allocate additional revenues for either existing initiatives such as the Convention Center or new initiatives, the new allocation would be part of the State's share of TAT funds, not an amount to be

[10] The Allocation Models Investigative Group identified tourism moneys as going to the Hawai'i Tourism Authority. In subsequent models, the consultant team presented these as contributions to the Tourism Special Fund. This represents a change which did not occasion comment by members of the Working Group.

guaranteed year after year before any division of revenues between the State and the counties.

Recognition of key principles for allocation

The Working Group sought an allocation strategy that could be approved by the Legislature and then stand unchanged for many years. The recommended strategy would be:

- **Fair:** Allocations should equitably reflect expenditures of the State and counties, and be perceived to be fair;
- **Predictable:** Allocations should provide a predictable stream of revenues to facilitate budgeting;
- **Simple:** Allocations should be simple to understand and administer; and
- **Flexible or Resilient in Changing Circumstances:** Allocations should be acceptable to multiple agencies and constituencies. To be acceptable, an allocation strategy must be able to accommodate legislative and agency responses to pressing issues that arise from time to time. In order to encourage resilience, the Working Group assessed allocation models in relation to both growth and recessionary scenarios.

The Working Group recognized that these principles could be difficult to align with each other, but all of them deserved to be considered in developing a long-term allocation model.

Model Recommended by the Working Group to the Legislature

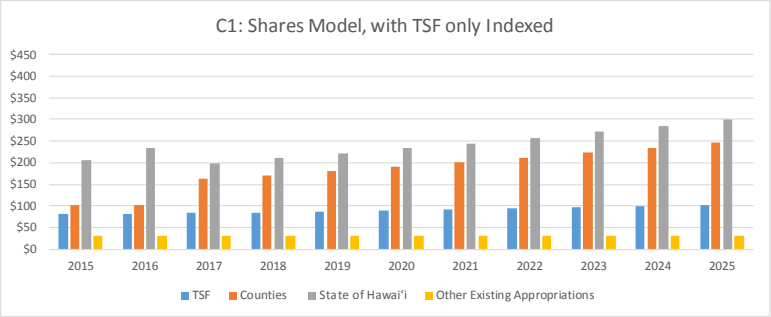
The Working Group unanimously agreed to propose a version of the shares model (Model 4):

- The TSF allocation would begin at $82 million, and then (as of FY2017) be indexed to the CPI-U;
- Existing allocations for Turtle Bay, the Convention Center, and the Special Land Development Fund would be recognized as continuing obligations;
- The remaining revenues would be split between the State and counties. After discussion, the group found a 55/45 split between the State and the counties appropriate as reflecting the range of tourism-related expenditures of these agencies.

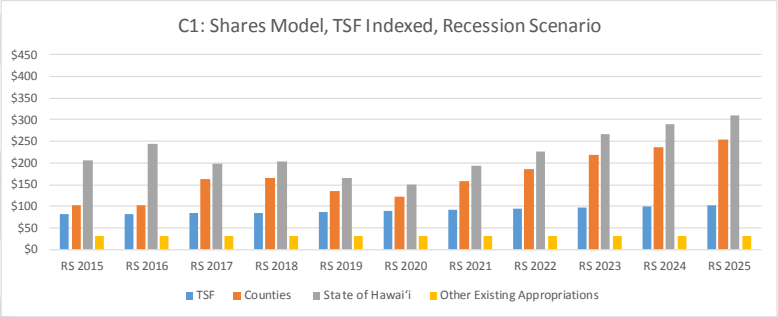
The recommended model provides both the counties and the visitor industry with predictability for budgeting and planning purposes. Exhibit 3-3 shows possible allocations with this model under the two scenarios.

Exhibit 3-3: Model Recommended by the Working Group to the State Legislature

C1	TSF only Indexed												AGGREGATE
	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



C1	TSF only Indexed												AGGREGATE
	RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	2016-2025
	Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
	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	$347	$362	$370	$299	$273	$350	$413	$484	$526	$566	
	Counties (45% of Remainder)	$103	$103	$163	$167	$134	$123	$157	$186	$218	$237	$255	$1,742
	State (55% of Remainder)	$205	$244	$199	$204	$164	$150	$192	$227	$266	$289	$311	$2,247



NOTE: Highlighted items are appropriations already set by the Legislature.

In choosing this model, the Working Group recognizes the Legislature's existing decisions to fund the TSF and specific tourism-related funds from TAT revenues while dividing the remainder of those revenues in proportions judged to correspond with the division of tourism-related duties and responsibilities of the State and counties.

Additional Considerations

Obligation to Support the Employer-Union Trust Fund

Act 268, SLH 2013, stipulates that the counties' share of TAT revenues could be reduced to cover unmet annual minimal obligations to the Employer-Union Trust Fund (EUTF) as of FY2019. The counties have time to plan for this provision, and to avoid reductions in TAT funds due to underpayment of EUTF obligations. They are already taking steps to do so. Consequently, this provision is recognized as an integral part of the TAT statute, but has not been incorporated in the models considered by the Working Group.

While some members of the Working Group proposed that the counties' EUTF obligation no longer be tied to TAT revenues, the group as a whole did not take a position on this issue.

Potential Changes in Demand for and Supply of Hawai'i Visitor Lodgings

The forecast developed for this report by HA includes anticipated changes in the visitor plant inventory. The TAT/TOT revenues are associated with known unit types:[11]

Hotels and condo hotels	approximately 84 percent of combined TAT/TOT revenues
Timeshare units leased as hotel units (subject to TAT)	approximately 4 percent
Individual vacation units (IVUs)	approximately 6 percent
Timeshare units subject to TOT	approximately 6 percent

The forecast anticipates some changes in the relative shares of these types with the introduction of new units and conversions of older units, but no great change in the distribution.

The Working Group and its consultants are aware of ongoing trends that could challenge the assumptions used for the forecast. Both consumers and property owners have been increasingly involved with Airbnb, vacation rental by owner (VRBO) and similar companies. These companies provide the owner of a bed, room, or unit to market their property over the Internet to vacationers. These arrangements typically provide vacationers with photos and descriptions of the property, comments by earlier visitors, information about the owners and some assurance that the owners will provide a welcome as well as lodging. Most units are

[11] Unit types are defined in the Hawai'i Tourism Authority *2014 Visitor Plant Inventory,* 2015. Available at http://www.hawaiitourismauthority.org/default/assets/File/reports/accommodations/2014%20Visitor%20Plant%20Inventory%20Report%20(FINAL).pdf.

less expensive than hotel units of similar size. One recent study estimates that these and other Individual Vacation Units (IVUs) account for as much as 25 percent of the supply of units for visitors.[12]

The impact of these arrangements is far from certain. On the one hand:

- Both the availability and visitors' use of IVUs could increase significantly;
- If these units account for a much larger share of the market than they do now, occupancy levels in luxury condos and the like could be depressed;
- The anticipated TAT revenues could be less than forecast, due to the increase in moderately priced units and to consequent price reductions in condos and hotels to compete with the new units.

However, rentals of transient vacation units outside of resort areas in many cases violate zoning codes, and owners may be subject to sanction by the counties. Also, it is not clear whether this segment of the market will continue to grow: it is simply too new and changing too quickly to be sure.

While a more competitive environment could pose challenges for hoteliers and condominium operators, the impact on TAT revenues is uncertain. The level of compliance with tax laws is not well known. State and county agencies are increasingly demanding that owners or operators be identified in all vacation rental advertising. Airbnb recognizes that its owners ("hosts") are subject to occupancy taxes in many areas. It is collecting such taxes and remitting them to local authorities in a few places. (Given the questionable legal status of many Airbnb units, it is in the company's interest to gain legitimacy as tax-paying members in jurisdictions such as San Francisco.)

Website listings for transient rentals are also evolving. Airbnb has developed methods to encourage its participants to be hosts as well as guests, increasing its reach. Other firms are entering this market, and will no doubt introduce new products, amenities, and marketing strategies.

In one future alternative, illegal vacation rentals, many of which are not tax-compliant, could multiply. In a second, the number of these rentals would be sharply constrained by government monitoring and fines. In a third, these rentals could multiply but become compliant, increasing GET and TAT revenues on visitor lodgings. The Working Group and its consultants are aware of this volatile market, but are not ready to offer any opinion as to its long-term implications.

[12] SMS Research & Marketing Services, Inc. *Individually Advertised Units in Hawai'i (Vacation Rentals),* prepared for the Hawai'i Tourism Authority. 2014. Available at http://www.hawaiitourismauthority.org/default/assets/File/research/accommodations%20studies/Individually%20Advertised%20Units%20in%20Hawaii%20%28Vacation%20Rentals%29.pdf

Chapter 4

Draft Legislation

Draft legislation to be included in the final report.

DRAFT

Appendix H

Impacts of Models Under Growth And Recessionary Conditions, to 2025

MODELS IN THIS APPENDIX

Model Runs		Model Number in Chapter 3	TSF	*Indexing* Floors	Land Fund
A	Shares	1			
B1	Shares, with TSF Floor	3		x	
B2	Shares, with TSF Floor	3	x	x	
C1	Shares with TSF Indexed	4	x		
C2	Shares with TSF, Land Fund Indexed	4	x		x
D1	Three-Stage, no Index	7			
D2	Three-State: TSF and Floors Indexed	7	x	x	
D3	Three-Stage: TSF only Index	7	x		
E1	Three-Stage Variant: TSF Indexed	8	x		
E2	Three-Stage Variant: no index	8			
E3	Three-Stage Variant: TSF and Floor Indexed	8	x	x	

The model runs in this Appendix correspond to ones requested by and presented to the Working Group in meetings in October 2015. The letter identifiers (A, B, C, D, E) were developed for the October 7 meeting; the more specific identifiers such as B1 and B2 were used in the handout for the October 21 meeting. In this appendix, model definitions are summarized and identified with both the initial letter identifier and the numerical identifier found in Chapter 3 of the report (e.g., 1(A) and 3(B)).

All models are run for both a growth forecast, derived from the Hospitality Advisors LLC analysis of visitor lodging revenues, and a recession scenario. Aggregate totals for a ten year period are shown for those rows which list revenues to be transferred to particular parties, rather than steps in the calculations.

The final versions of the model runs in this appendix differs from earlier ones considered by the Working Group in that (a) FY 2015 and FY 2016 allocations are shown as mandated by recent Acts; (b) Recessionary scenarios are based on a corrected analysis of the 2005 to 2015 TAT tax base, as discussed in the report. For the October 7 meeting, revenues dedicated to several existing appropriations (Convention Center, Turtle Bay, and the State Special Land Fund) were indexed to changes in the CPI. Per the Working Group's discussions, revenues for the Convention Center and Turtle Bay are held constant at their 2015 values for all models.

1 (A) Simple Shares Model. Revenues divided into three shares:

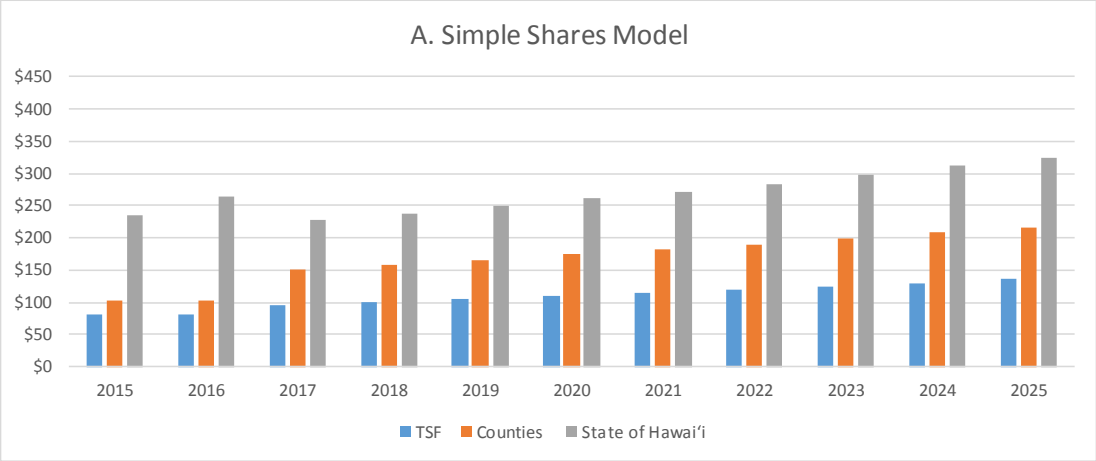
20% Tourism Special Fund
32% Counties
48% State of Hawai'i

> All shares would grow or contract along with revenues. Any existing set-asides (including the Convention Center Special Fund) would come from the State share.

> This allocation divides allocations for the State and counties on a 60/40 basis (after TSF share).

A. Simple Shares Model. Revenues divided into three shares:

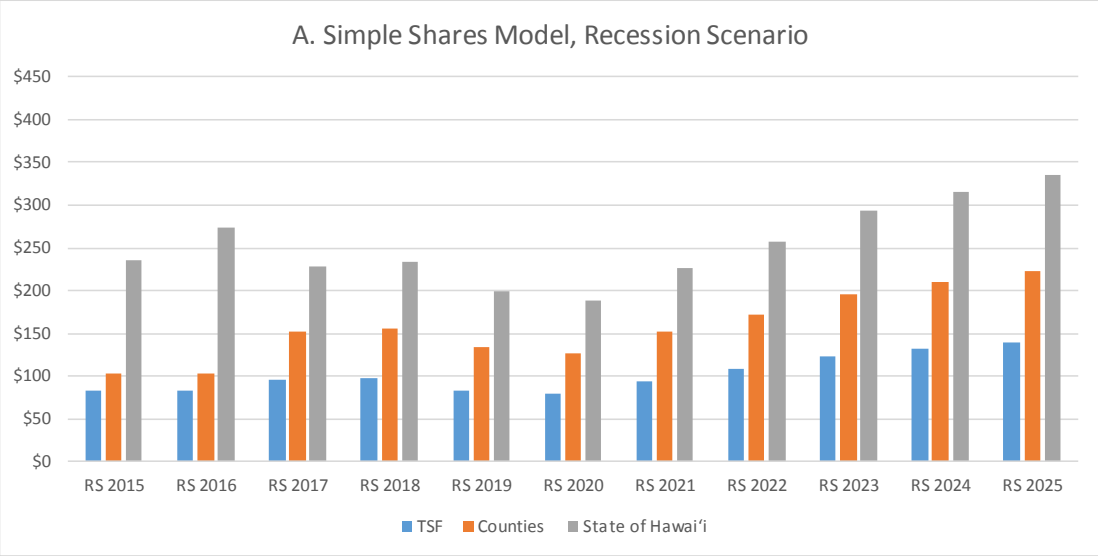
Hospitality Advisors (HA) FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total (million)	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
20% TSF	$82	$82	$95	$99	$104	$109	$114	$118	$125	$130	$136	$1,111
32% Counties	$103	$103	$152	$159	$166	$174	$182	$189	$199	$208	$217	$1,749
48% State of Hawai'i	$236	$265	$228	$239	$250	$261	$273	$284	$299	$312	$326	$2,734



NOTES: Model A involves shares, not set amounts, so no indexing needs to be considered. Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

A. Simple Shares Model. Revenues divided into three shares:

RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
20% TSF	$82	$82	$95	$97	$83	$79	$94	$108	$122	$131	$140	$1,032
32% Counties	$103	$103	$152	$155	$133	$126	$151	$172	$196	$210	$224	$1,622
48% State of Hawai‘i	$236	$275	$229	$233	$200	$189	$227	$258	$294	$315	$335	$2,554



3 (B) Shares Model, with Tourism Special Fund Protected against Downturns

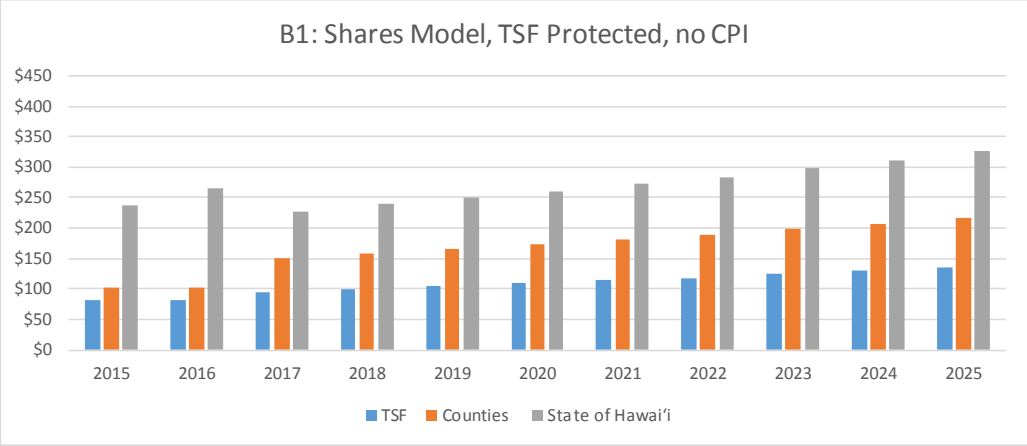
Tourism Special Fund, amount set by Legislature ($82 million for FY 2015).

Remainder split by State and Counties on a 60/40 basis

B Shares Model, with Tourism Special Fund Protected against Downturns

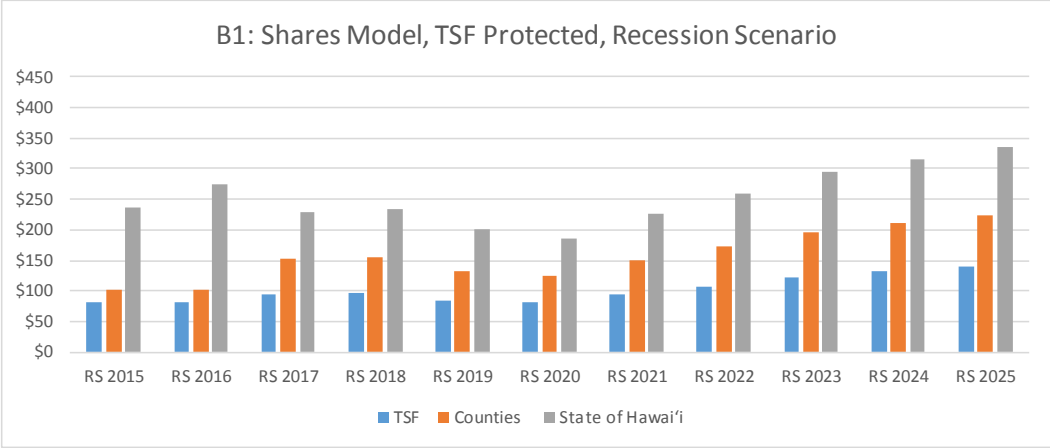
B1 HA FORECAST, NO CPI

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total (million)	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
20% TSF Share	$84	$90	$95	$99	$104	$109	$114	$118	$125	$130	$136	
TSF Floor ($82)	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	
TSF Allocation	$82	$82	$95	$99	$104	$109	$114	$118	$125	$130	$136	$1,111
Remainder (Total - TSF)	$339	$368	$379	$398	$416	$435	$454	$473	$498	$520	$543	
Counties (40% of Remainder)	$103	$103	$152	$159	$166	$174	$182	$189	$199	$208	$217	$1,749
State (60% of Remainder)	$236	$265	$228	$239	$250	$261	$273	$284	$299	$312	$326	$2,734



NOTE: Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

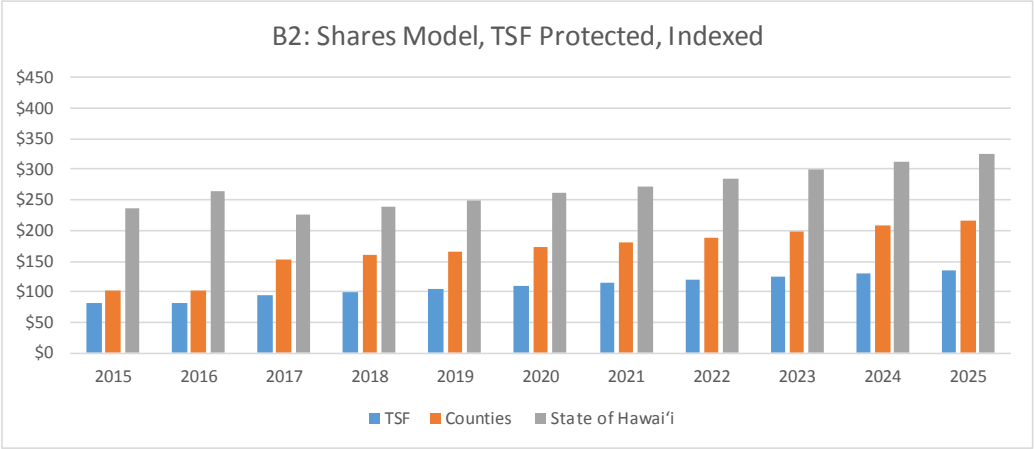
B1	RECESSION SCENARIO, NO CPI	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
	Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
20%	TSF Share	$84	$92	$95	$97	$83	$79	$94	$108	$122	$131	$140	
	TSF Floor ($82)	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	
	TSF Allocation	$82	$82	$95	$97	$83	$82	$94	$108	$122	$131	$140	$1,035
	Remainder (Total - TSF)	$339	$378	$381	$389	$333	$311	$378	$430	$489	$525	$559	
	Counties (40% of Remainder)	$103	$103	$152	$155	$133	$125	$151	$172	$196	$210	$224	$1,621
	State (60% of Remainder)	$236	$275	$229	$233	$200	$187	$227	$258	$294	$315	$335	$2,552



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

B2 HA FORECAST, CPI INCREASE

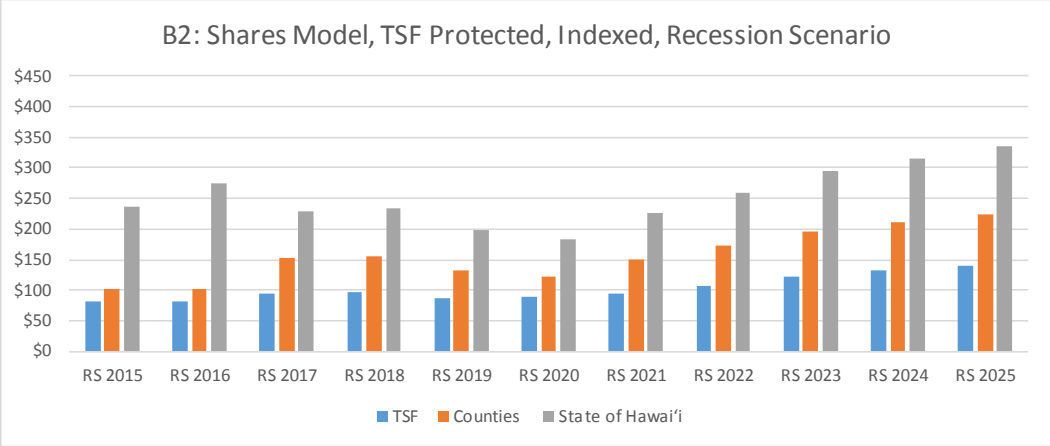
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total (million)	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
20% TSF Share	$84	$90	$95	$99	$104	$109	$114	$118	$125	$130	$136	
TSF Floor ($82 + CPI)	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	
TSF Allocation	$82	$82	$95	$99	$104	$109	$114	$118	$125	$130	$136	$1,111
Remainder (Total - TSF)	$339	$368	$379	$398	$416	$435	$454	$473	$498	$520	$543	
Counties (40% of Remainder)	$103	$103	$152	$159	$166	$174	$182	$189	$199	$208	$217	$1,749
State (60% of Remainder)	$236	$265	$228	$239	$250	$261	$273	$284	$299	$312	$326	$2,734



NOTE: For Model B,the Tourism Special Fund (TSF) is protected from reductions by a floor. Indexing may affect the floor (in model B2).
Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

B2 RECESSION SCENARIO, WITH CPI

		RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
	Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
20%	TSF Share	$84	$92	$95	$97	$83	$79	$94	$108	$122	$131	$140	
	TSF Floor ($82 + CPI)	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	
	TSF Allocation	$82	$82	$95	$97	$87	$89	$94	$108	$122	$131	$140	$1,046
	Remainder (Total - TSF)	$339	$378	$381	$389	$330	$304	$378	$430	$489	$525	$559	
	Counties (40% of Remainder)	$103	$103	$152	$155	$132	$122	$151	$172	$196	$210	$224	$1,617
	State (60% of Remainder)	$236	$275	$229	$233	$198	$183	$227	$258	$294	$315	$335	$2,545



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

4 (C) Shares Model, with Existing Special Funds Protected against Downturns

1 Guaranteed amount:

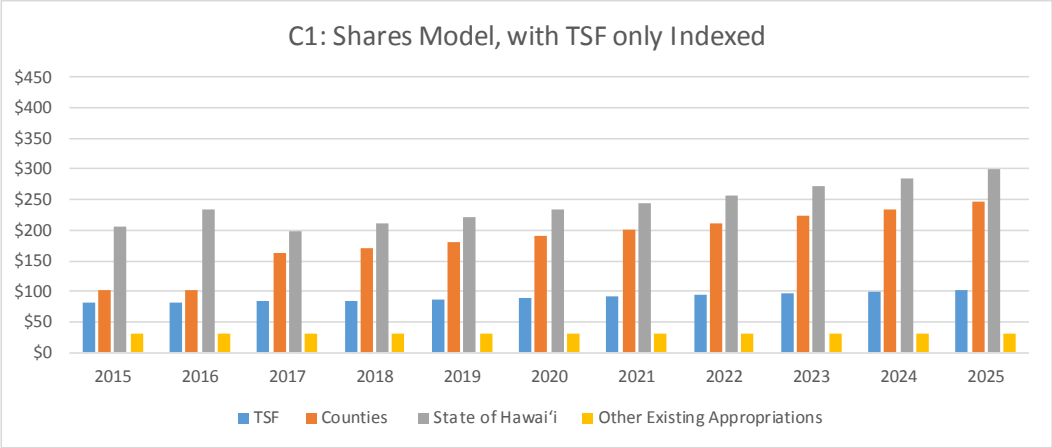
$82.0	TSF, starting at $82 million and changing with inflation IN
$26.5	Convention Center Enterprise Special Fund
$1.5	Turtle Bay Special Fund
$3.0	Special Land Development Fund (DLNR) (Indexed to inflation in version C2)
$113	million in FY 2015

2 Shares of remainder of TAT funds:

45%	Counties
55%	State of Hawai‘i

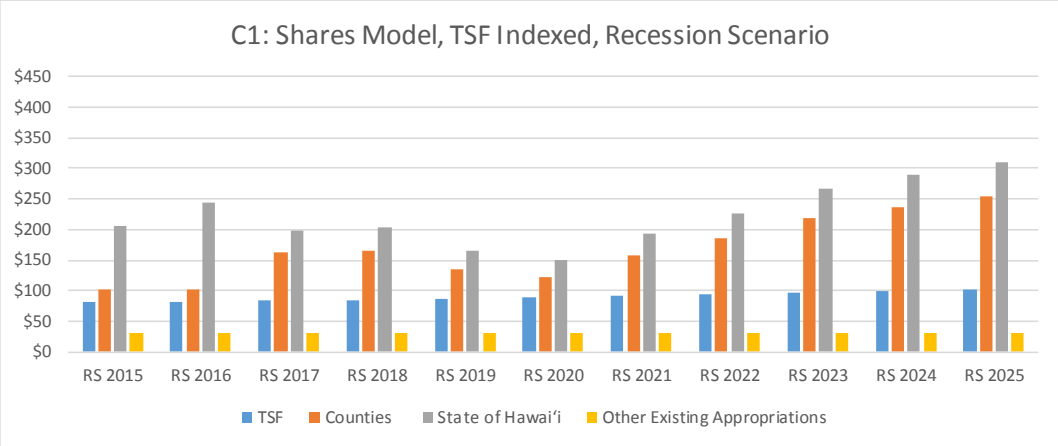
NOTE: Shares of remainder considered at different percentage allocations; this distribution is the one chosen by the Working Group.

C1	TSF only Indexed												AGGREGATE
	HA 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



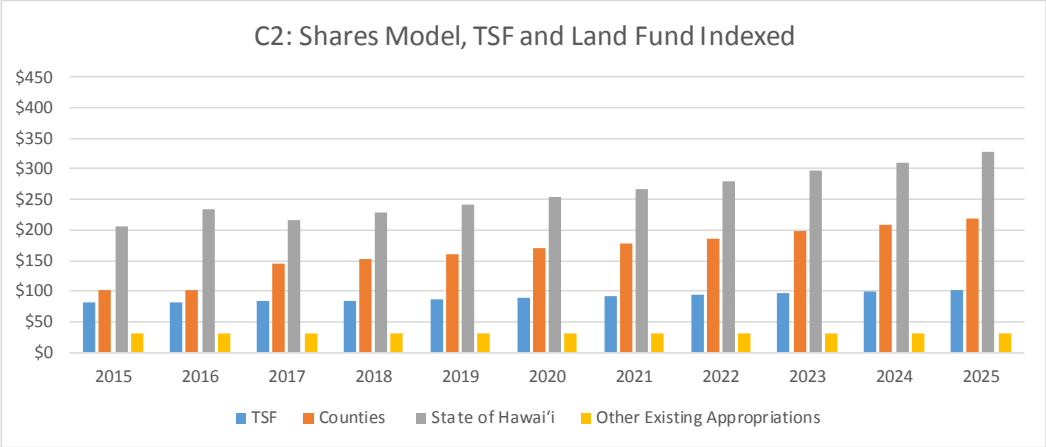
NOTE: This model has been viewed with 60/40, 54/46. and 55/45 splits between the State and counties. The last (55/45) was chosen by the Working Group.
Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

C1	TSF only Indexed												AGGREGATE
	RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	2016-2025
	Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
	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	$347	$362	$370	$299	$273	$350	$413	$484	$526	$566	
	Counties (45% of Remainder)	$103	$103	$163	$167	$134	$123	$157	$186	$218	$237	$255	$1,742
	State (55% of Remainder)	$205	$244	$199	$204	$164	$150	$192	$227	$266	$289	$311	$2,247



NOTE: This model has been viewed with 60/40, 54/46. and 55/45 splits between the State and counties. The last (55/45) was chosen by the Working Group.
Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

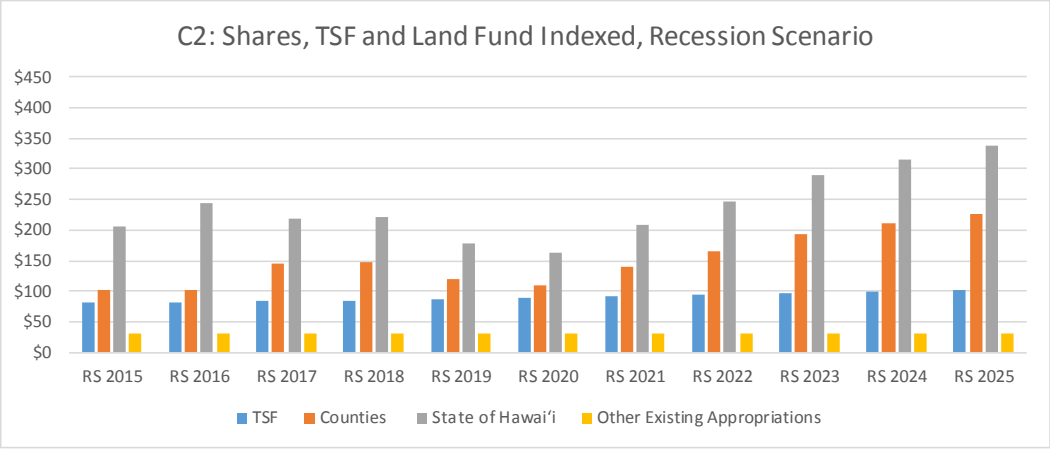
C2	TSF and Land Fund indexed												AGGREGATE
	HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2025
	Total (million)	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
	TSF (+ CPI)	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
	Other Existing Appropriations												
	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 (+ CPI)	$3.0	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4	$3.4	$3.5	$3.6	$3.7	$33
	Remainder	$308	$337	$360	$381	$402	$423	$445	$466	$495	$519	$545	
	Counties (40% of Remainder)	$103	$103	$144	$153	$161	$169	$178	$186	$198	$207	$218	$1,717
	State (60% of Remainder)	$205	$234	$216	$229	$241	$254	$267	$280	$297	$311	$327	$2,655



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

C2 TSF and Land Fund indexed

RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total (million)	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
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 (+ CPI)	$3.0	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4	$3.4	$3.5	$3.6	$3.7	$33
Remainder	$308	$347	$362	$370	$299	$273	$349	$412	$484	$525	$565	
Counties (40% of Remainder)	$103	$103	$145	$148	$119	$109	$140	$165	$193	$210	$226	$1,559
State (60% of Remainder)	$205	$244	$217	$222	$179	$164	$210	$247	$290	$315	$339	$2,427



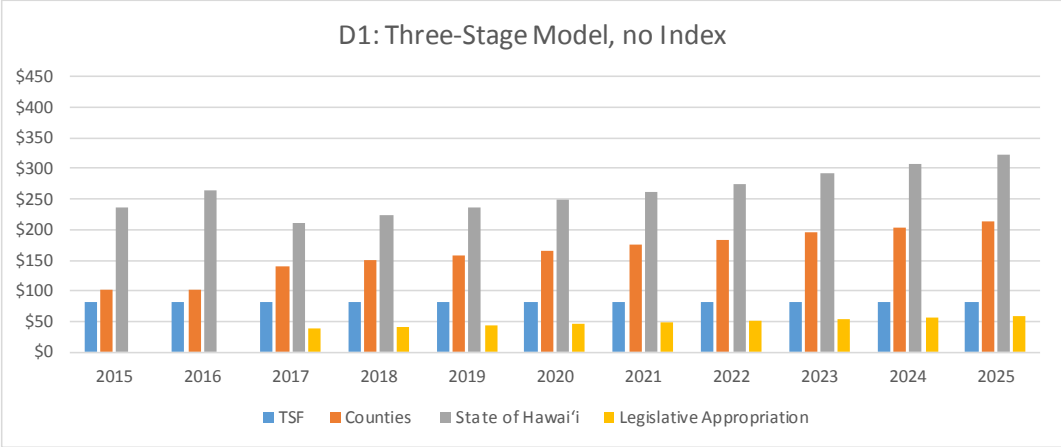
Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

7 (D) Three-stage Model Presented by Allocation Models Investigative Group

1. Guaranteed to TSF: $82 million plus growth with inflation
2. 90% of remainder: 60/40 State and Counties
   Guaranteed for State and Counties, for existing expenditures:
   $100 million each, guaranteed for State and Counties
3. 10% of remainder
   Legislative discretion, with recommendation that funds spent on visitor related expenses

D1 **Original Three-Stage Model: no indexing**

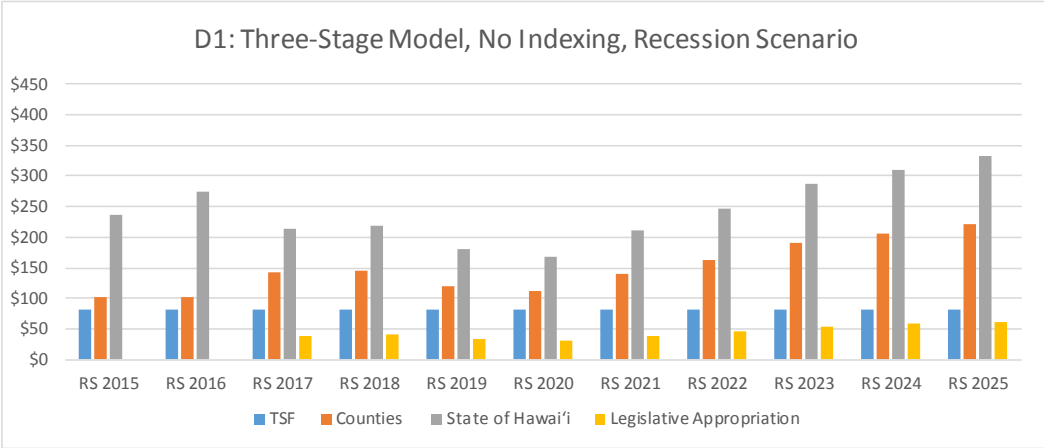
HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1												
TSF	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$820
Stage 2												
90% of remainder			$353	$374	$394	$415	$437	$459	$487	$511	$537	
Counties 40%	$103	$103	$141	$149	$158	$166	$175	$184	$195	$204	$215	
State 60%	$236	$265	$212	$224	$236	$249	$262	$275	$292	$306	$322	
"Floor" for counties or State	$100	$100	$100	$100	$101	$101	$100	$100	$102	$102	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$141	$149	$158	$166	$175	$184	$195	$204	$215	
State	$236	$265	$212	$224	$236	$249	$262	$275	$292	$306	$322	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$39	$42	$44	$46	$49	$51	$54	$57	$60	
Appropriation	$0	$0	$39	$42	$44	$46	$49	$51	$54	$57	$60	$441
Reduction, Stage 2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$141	$149	$158	$166	$175	$184	$195	$204	$215	$1,689
Adjusted Stage 2 State amount	$236	$265	$212	$224	$236	$249	$262	$275	$292	$306	$322	$2,644
Total State (Stage 2 + Appropriation)	$236	$265	$251	$266	$280	$295	$311	$326	$346	$363	$382	*$3,085*



NOTE: The model presented for discussion by the Allocation Models Investigative Group begins with allocation of a set amount for the TSF. The remaining funds are split, with 90% to be allocated between the State and counties on a 60/40 basis, and 10% for the Legislature to appropriate, preferably for tourism-related expenditures. Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

D1 **Original Three-Stage Model: no indexing**

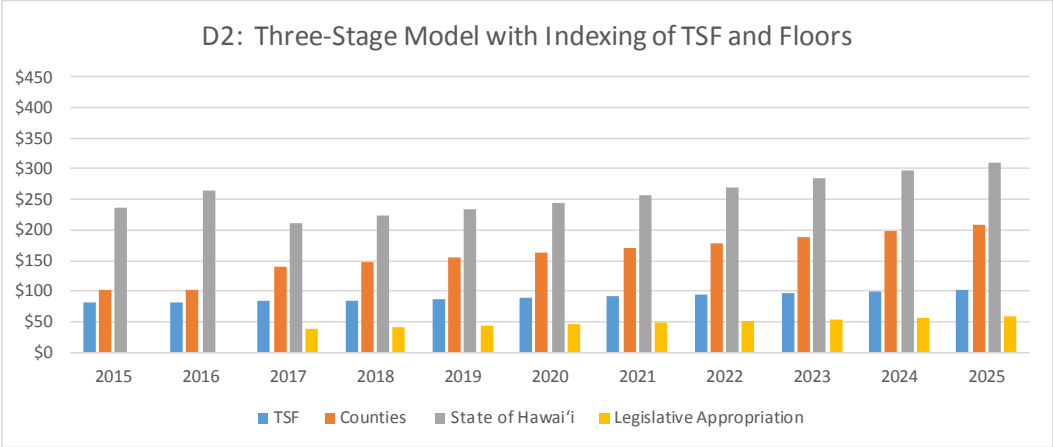
RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
Stage 1												
TSF	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$820
Stage 2												
90% of remainder			$355	$363	$301	$280	$351	$410	$477	$516	$555	
Counties 40%	$103	$103	$142	$145	$120	$112	$140	$164	$191	$207	$222	
State 60%	$236	$275	$213	$218	$181	$168	$211	$246	$286	$310	$333	
"Floor" for counties or State			$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$142	$145	$120	$112	$140	$164	$191	$207	$222	
State	$236	$275	$213	$218	$181	$168	$211	$246	$286	$310	$333	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$39	$40	$33	$31	$39	$46	$53	$57	$62	
Appropriation	$0	$0	$39	$40	$33	$31	$39	$46	$53	$57	$62	$401
Reduction, Stage 2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$142	$145	$120	$112	$140	$164	$191	$207	$222	$1,547
Adjusted Stage 2 State amount	$236	$275	$213	$218	$181	$168	$211	$246	$286	$310	$333	$2,440
Total State (Stage 2 + Appropriation)	$236	$275	$252	$258	$214	$199	$250	$292	$339	$367	$395	*$2,841*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

D2: Three-Stage Model, with Indexing of TSF and floors

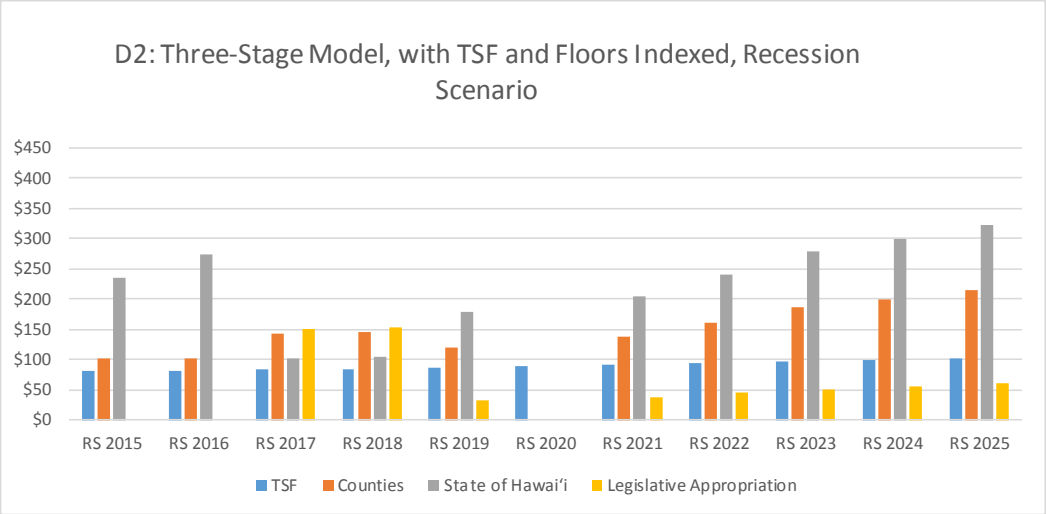
HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1												
TSF Indexed	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2												
90% of remainder			$352	$371	$390	$409	$429	$448	$473	$495	$519	
Counties 40%	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State 60%	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	
"Floor" for counties or State			$101	$103	$107	$110	$112	$115	$120	$123	$124	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$39	$41	$43	$45	$48	$50	$53	$55	$58	
Appropriation	$0	$0	$39	$41	$43	$45	$48	$50	$53	$55	$58	$432
Reduction, Stage 2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	$1,657
Adjusted Stage 2 State amount	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	$2,596
Total State (Stage 2 + Appropriation)	$236	$265	$250	$264	$277	$291	$305	$319	$337	$352	$369	*$3,028*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

D2: Three-Stage Model, with Indexing of TSF and floors

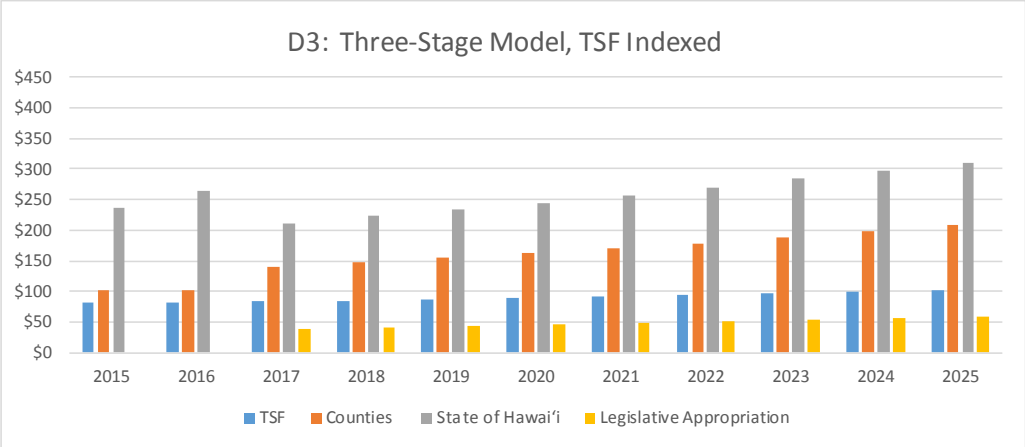
RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
Stage 1												
TSF	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2												
90% of remainder			$354	$361	$297	$274	$343	$399	$464	$501	$537	
Counties 40%	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State 60%	$236	$275	$212	$217	$178	$164	$206	$240	$278	$301	$322	
"Floor" for counties or State			$101	$103	$106	$109	$112	$115	$118	$121	$124	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State	$236	$275	$101	$103	$178	#REF!	$206	$240	$278	$301	$322	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$151	$153	$33	#REF!	$38	$44	$52	$56	$60	
Appropriation	$0	$0	$151	$153	$33	#REF!	$38	$44	$52	$56	$60	#REF!
Reduction, Stage 2	$0	$0	$0	$0	$0	#REF!	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$142	$144	$119	#REF!	$137	$160	$185	$200	$215	#REF!
Adjusted Stage 2 State amount	$236	$275	$101	$103	$178	#REF!	$206	$240	$278	$301	$322	#REF!
Total State (Stage 2 + Appropriation)	$236	$275	$252	$257	$211	#REF!	$244	$284	$330	$356	$382	*#REF!*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

D3 **Three-Stage Model, with Indexing of TSF only**

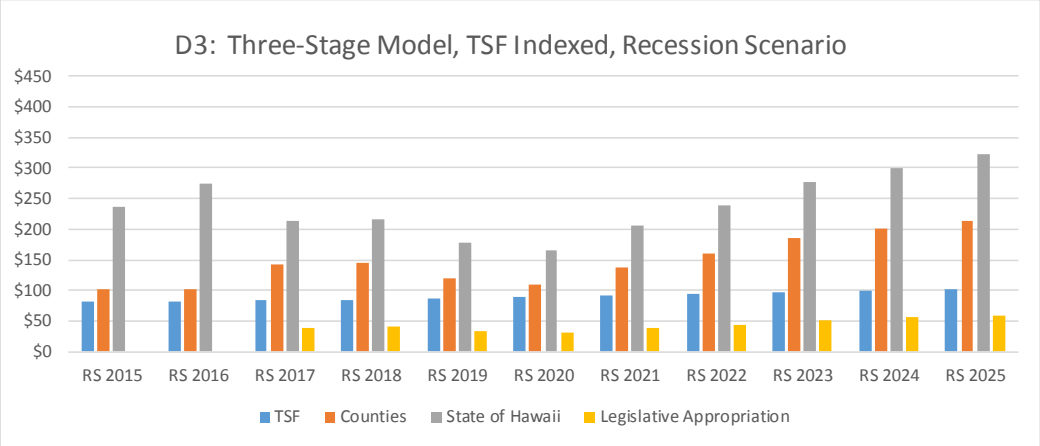
HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1												
TSF Indexed	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2												
90% of remainder			$352	$371	$390	$409	$429	$448	$473	$495	$519	
Counties 40%	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State 60%	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	
"Floor" for counties or State			$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$39	$41	$43	$45	$48	$50	$53	$55	$58	
Appropriation	$0	$0	$39	$41	$43	$45	$48	$50	$53	$55	$58	$432
Reduction, Stage 2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	$1,657
Adjusted Stage 2 State amount	$236	$265	$211	$223	$234	$245	$257	$269	$284	$297	$311	$2,596
Total State (Stage 2 + Appropriation)	$236	$265	$250	$264	$277	$291	$305	$319	$337	$352	$369	*$3,028*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

D3 **Three-Stage Model, with Indexing of TSF only**

RECESSION SCENARIO	RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total	$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
Stage 1												
TSF Indexed	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2												
90% of remainder			$354	$361	$297	$274	$343	$399	$464	$501	$537	
Counties 40%	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State 60%	$236	$275	$212	$217	$178	$164	$206	$240	$278	$301	$322	
"Floor" for counties or State			$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State	$236	$275	$212	$217	$178	$164	$206	$240	$278	$301	$322	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$0	$0	$39	$40	$33	$30	$38	$44	$52	$56	$60	
Appropriation	$0	$0	$39	$40	$33	$30	$38	$44	$52	$56	$60	$392
Reduction, Stage 2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	$1,515
Adjusted Stage 2 State amount	$236	$275	$212	$217	$178	$164	$206	$240	$278	$301	$322	$2,392
Total State (Stage 2 + Appropriation)	$236	$275	$252	$257	$211	$195	$244	$284	$330	$356	$382	*$2,784*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014.

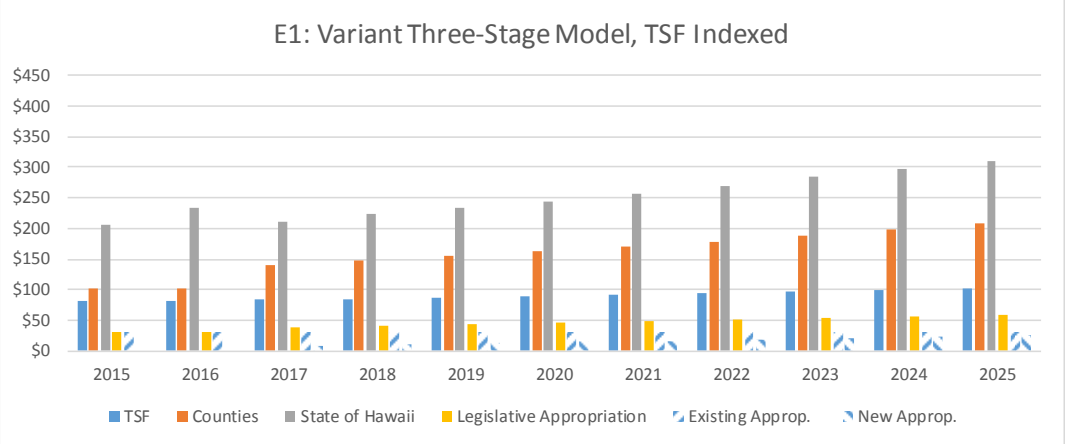
8 (E) Variant of Three-Stage Model

1. Guaranteed to TSF: $82 million plus growth with inflation
2. 90% of remainder: 60/40 State and Counties
   Guaranteed for State and Counties, for existing expenditures:
   $100 million each, guaranteed for State and Counties
3. 10% of remainder to State, to include set-asides for Turtle Bay, Convention Center, Special Land Development Fund, remainder for Legislative appropriations as of 2015 or later

   If the 10% is not enough to cover the existing set-asides, the State and Counties would cover these from their Stage 2 moneys.

E1 **Variant Three-Stage Model, with TSF only indexed**

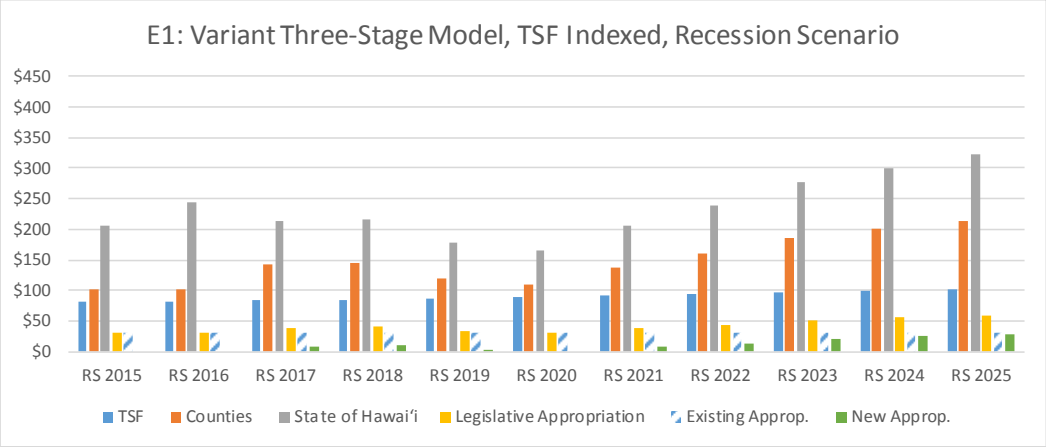
HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1												
TSF Indexed	$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2												
90% of remainder			$352	$371	$390	$409	$429	$448	$473	$495	$519	
Counties 40%	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State 60%	$205	$234	$211	$223	$234	$245	$257	$269	$284	$297	$311	
"Floor" for counties or State			$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State	$205	$234	$211	$223	$234	$245	$257	$269	$284	$297	$311	
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$31	$31	$39	$41	$43	$45	$48	$50	$53	$55	$58	
Existing Appropriations -- Anticipated												
Turtle Bay	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
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	
Total Anticipated Appropriations	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining												
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 (+ CPI)	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$30
New Appropriations	$0	$0	$8	$10	$12	$14	$17	$19	$22	$24	$27	$153
Total State (Stage 2 + Appropriations)	$236	$265	$250	$264	$277	$291	$305	$319	$337	$352	$369	*$3,028*



NOTES: In this model, the exisitng appropriations are treated as part of the "Legislative Appropriations" share (10% of funds remaining after Stage 1 allocation of TSF). The Existing Appropriations and New Appropriations columns are included within the Legislative Appropriation total. Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund

E1 **Variant Three-Stage Model, with TSF only indexed**

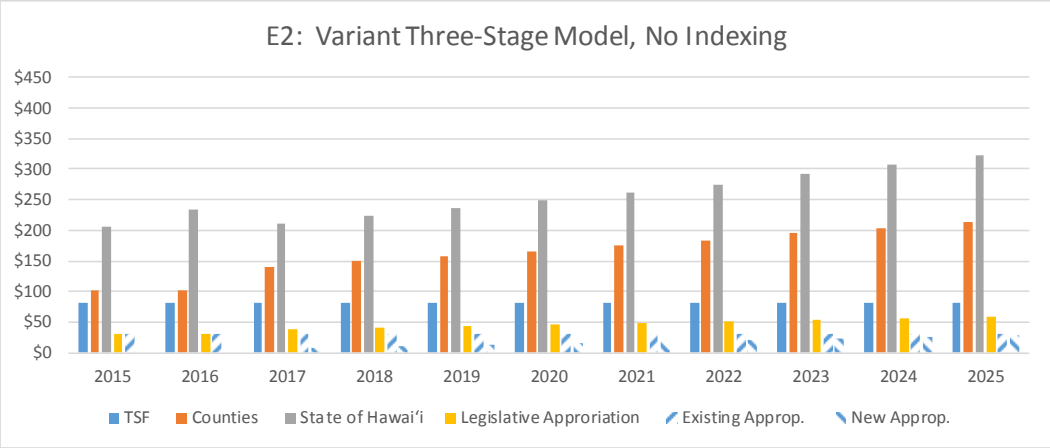
RECESSION SCENARIO		RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total		$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
Stage 1													
TSF Indexed		$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2													
90% of remainder				$354	$361	$297	$274	$343	$399	$464	$501	$537	
Counties	40%	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State	60%	$205	$244	$212	$217	$178	$164	$206	$240	$278	$301	$322	
"Floor" for counties or State		$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)													
Counties		$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	$1,515
State		$205	$244	$212	$217	$178	$164	$206	$240	$278	$301	$322	$2,361
Stage 3 Legislative Appropriation													
Remaining after Stages 1, 2		$31	$31	$39	$40	$33	$30	$38	$44	$52	$56	$60	
Existing Appropriations -- Anticipated													
Turtle Bay		$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center		$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	
Total Anticipated Appropriations		$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining													
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	$26.0	$26.5	$26.5	$26.5	$26.5	$26.5	$265
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$2.9	$3.0	$3.0	$3.0	$3.0	$3.0	$30
New Appropriations		$0	$0	$8	$9	$2	$0	$7	$13	$21	$25	$29	$114
Total State (Stage 2 + Appropriations)		$236	$275	$252	$257	$211	$195	$244	$284	$330	$356	$382	*$2,784*



Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

E2: Variant Three-Stage Model, with no items indexed

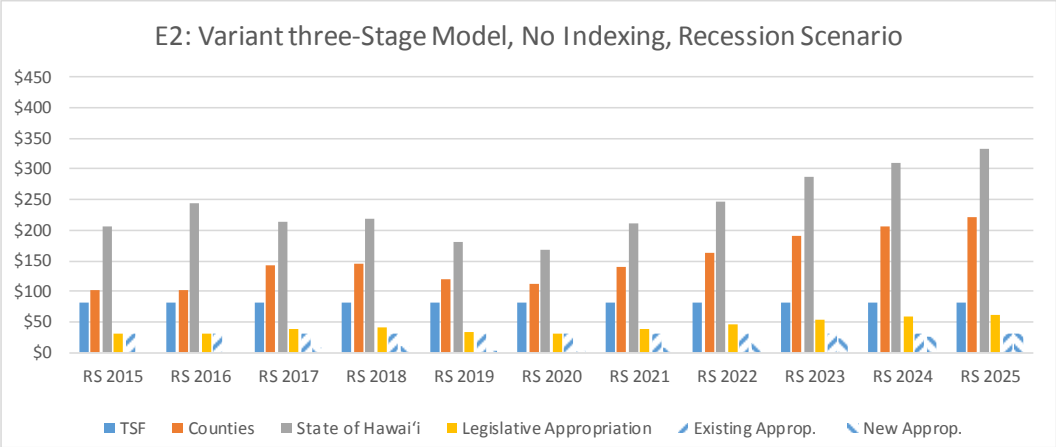
HA FORECAST	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total	$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1												
TSF	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$820
Stage 2												
90% of remainder			$353	$374	$394	$415	$437	$459	$487	$511	$537	
Counties 40%	$103	$103	$141	$149	$158	$166	$175	$184	$195	$204	$215	
State 60%	$205	$234	$212	$224	$236	$249	$262	$275	$292	$306	$322	
"Floor" for counties or State			$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)												
Counties	$103	$103	$141	$149	$158	$166	$175	$184	$195	$204	$215	$1,689
State	$205	$234	$212	$224	$236	$249	$262	$275	$292	$306	$322	$2,613
Stage 3 Legislative Appropriation												
Remaining after Stages 1, 2	$31	$31	$39	$42	$44	$46	$49	$51	$54	$57	$60	
Existing Appropriations -- Anticipated												
Turtle Bay	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
Special Land Fund (+ CPI)	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	
Total Anticipated Appropriations	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining												
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 (+ CPI)	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$30
New Appropriations	$0	$0	$8	$11	$13	$15	$18	$20	$23	$26	$29	$162
Total State (Stage 2 + Appropriations)	$236	$265	$251	$266	$280	$295	$311	$326	$346	$363	$382	*$3,085*



NOTE: If total > $282. no reduction needed to Stage 2 allocations. Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

E2: Variant Three-Stage Model, with no items indexed

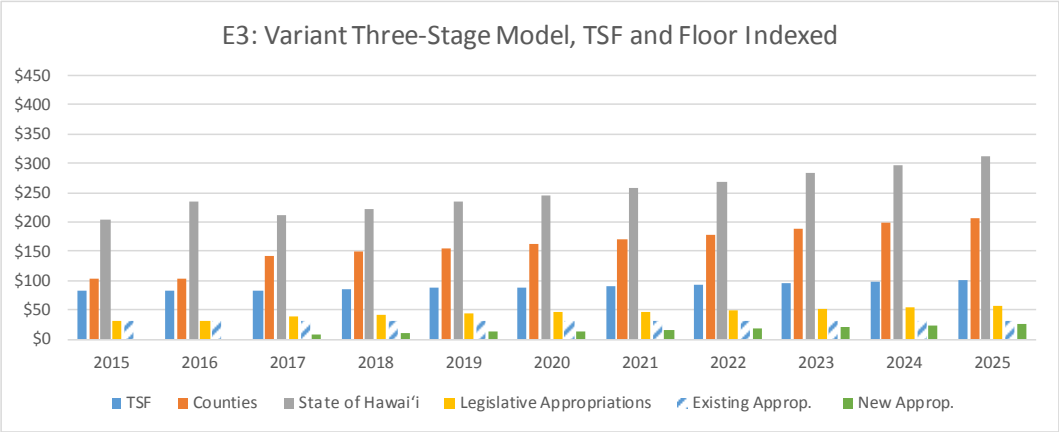
RECESSION SCENARIO		RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total		$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	$5,208
Stage 1													
TSF		$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$82	$820
Stage 2													
90% of remainder				$355	$363	$301	$280	$351	$410	$477	$516	$555	
Counties	40%	$103	$103	$142	$145	$120	$112	$140	$164	$191	$207	$222	
State	60%	$205	$244	$213	$218	$181	$168	$211	$246	$286	$310	$333	
"Floor" for counties or State		$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	
Stage 2 Allocation (larger of share or floor)													
Counties		$103	$103	$142	$145	$120	$112	$140	$164	$191	$207	$222	$1,547
State		$205	$244	$213	$218	$181	$168	$211	$246	$286	$310	$333	$2,409
Stage 3 Legislative Appropriation													
Remaining after Stages 1, 2		$31	$31	$39	$40	$33	$31	$39	$46	$53	$57	$62	
Existing Appropriations -- Anticipated													
Turtle Bay		$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center		$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	
Total Anticipated Appropriations		$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining													
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 (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$30
New Appropriations		$0	$0	$8	$9	$2	$0	$8	$15	$22	$26	$31	$122
Total State (Stage 2 + Appropriations)		$236	$275	$252	$258	$214	$199	$250	$292	$339	$367	$395	*$2,841*



NOTE: If total TAT revenue= or > $282. no reduction needed to Stage 2 allocations. Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

E3: Variant Three-Stage Model, TSF, Floor Indexed (not Existing Appropriations)

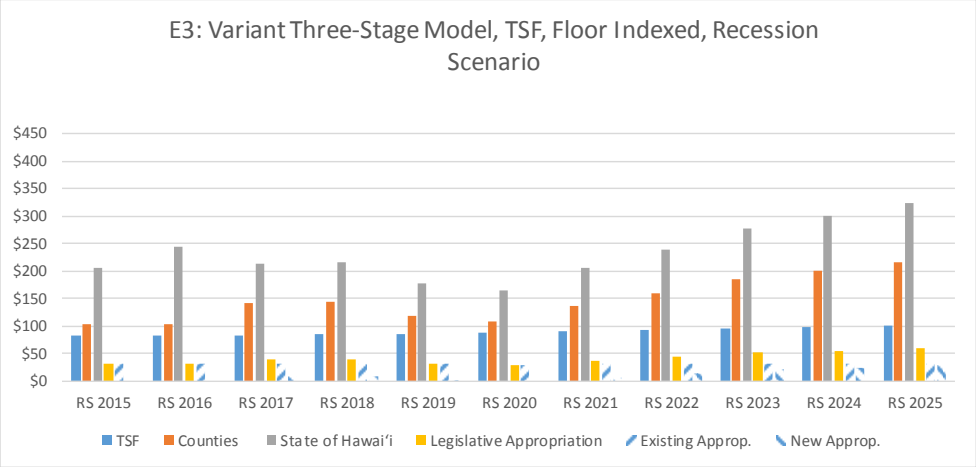
HA FORECAST		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	AGGREGATE 2016-2025
Total		$421	$450	$474	$497	$520	$543	$568	$592	$623	$649	$678	**$5,594**
Stage 1													
TSF Indexed		$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2													
90% of remainder				$352	$371	$390	$409	$429	$448	$473	$495	$519	
Counties	40%	$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State	60%	$205	$234	$211	$223	$234	$245	$257	$269	$284	$297	$311	
"Floor" for counties or State - Indexed				$101	$103	$106	$109	$112	$115	$118	$121	$124	
Stage 2 Allocation (larger of share or floor)													
Counties		$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	
State		$205	$234	$211	$223	$234	$245	$257	$269	$284	$297	$311	
Stage 3 Legislative Appropriation													
Remaining after Stages 1, 2		$31	$31	$39	$41	$43	$45	$48	$50	$53	$55	$58	
Existing Appropriations -- Anticipated													
Turtle Bay		$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center		$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	
Total Anticipated Appropriations		$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining													
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 (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$30
Remainder of Stage 3		$0	$0	$8	$10	$12	$14	$17	$19	$22	$24	$27	$153
New Appropriations		$0	$0	$8	$10	$12	$14	$17	$19	$22	$24	$27	
Reductions of Stage 2		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount		$103	$103	$141	$148	$156	$164	$171	$179	$189	$198	$207	$1,657
Adjusted Stage 2 State amount		$205	$234	$211	$223	$234	$245	$257	$269	$284	$297	$311	$2,565
Total State (Stage 2 + Appropriation)		$236	$265	$250	$264	$277	$291	$305	$319	$337	$352	$369	*$3,028*



NOTES: Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

E3: Variant Three-Stage Model, TSF, Floor indexed (not Existing Appropriations)

RECESSION SCENARIO		RS 2015	RS 2016	RS 2017	RS 2018	RS 2019	RS 2020	RS 2021	RS 2022	RS 2023	RS 2024	RS 2025	AGGREGATE 2016-2025
Total		$421	$460	$476	$486	$417	$393	$472	$538	$612	$656	$699	**$5,208**
Stage 1													
TSF Indexed		$82	$82	$83	$85	$87	$89	$92	$94	$97	$99	$102	$909
Stage 2													
90% of remainder				$354	$361	$297	$274	$343	$399	$464	$501	$537	
Counties	40%	$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State	60%	$205	$244	$212	$217	$178	$164	$206	$240	$278	$301	$322	
"Floor" for counties or State - Indexed				$101	$103	$106	$109	$112	$115	$118	$121	$124	
Stage 2 Allocation (larger of share or floor)													
Counties		$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	
State		$205	$244	$212	$217	$178	$164	$206	$240	$278	$301	$322	
Stage 3 Legislative Appropriation													
Remaining after Stages 1, 2		$31	$31	$39	$40	$33	$30.4	$38	$44	$52	$56	$60	
Existing Appropriations -- Anticipated													
Turtle Bay		$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	
Convention Center		$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	$26.5	
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0	
Total Anticipated Appropriations		$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	$31.0	
Existing Appropriations: Anticipated or, if Remaining after Stages 1,2 smaller, share of Remaining													
Turtle Bay		$1.5	$1.5	$1.5	$1.5	$1.5	$1.47	$1.5	$1.5	$1.5	$1.5	$1.5	$15
Convention Center		$26.5	$26.5	$26.5	$26.5	$26.5	$26.01	$26.5	$26.5	$26.5	$26.5	$26.5	$265
Special Land Fund (+ CPI)		$3.0	$3.0	$3.0	$3.0	$3.0	$2.94	$3.0	$3.0	$3.0	$3.0	$3.0	$30
Remainder of Stage 3		$0	$0	$8	$9	$2	$0	$7	$13	$21	$25	$29	
New Appropriations		$0	$0	$8	$9	$2	$0	$7	$13	$21	$25	$29	$114
Reductions of Stage 2		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Adjusted Stage 2 County amount		$103	$103	$142	$144	$119	$110	$137	$160	$185	$200	$215	$1,515
Adjusted Stage 2 State amount		$205	$244	$212	$217	$178	$164	$206	$240	$278	$301	$322	$2,361
Total State (Stage 2 + Appropriation)		$236	$275	$252	$257	$211	$195	$244	$284	$330	$356	$382	*$2,784*



NOTES: Because "floor" for State and counties varies with inflation, funds remaining after initial Stage 2 calculation could be negative. In that case, no money goes to Stage 3 and the shortfall is deducted from State 2 moneys for the State and Counties (in 60/40 proportion). Allocations for FY 2015 and 2016 are assumed to be as directed in Act 174, SLH 2014 and Acts 117 and 121, SLH 2015. Special Land Development Fund moneys for the years before FY 2015 are actually General Fund appropriations.

THE FOLLOWING COULD GO BEFORE OR AT THE END OF THE RECOMMENDATIONS SECTION. THESE ITEMS FOLLOW SUGGESTIONS MADE ON OCTOBER 21 TO DISCUSS INDEXING AND TO COMPARE "BASELINE" WITH OTHER MODELS.

Implications of Shares, Indexed or Set Amounts for Model Components

The Working Group assessed different ways to divide up TAT revenues in the various models. It found a "shares" approach to the allocation of revenues to the State and Counties reasonable, in light of the many public services provided by these. However, there was considerable support for including a "floor" for the Counties, whereby they would be assured a minimum amount in good times or bad. In the end, no such "floor" was included. When TAT revenues are low, both the State and the Counties would need additional revenues. Without a "floor," both can enjoy gains when revenues increase, but both are exposed to declines in recessions.

The Working Group also considered the use of set amounts, as opposed to amounts indexed to inflation, from year to year. It found that:

- TSF allocations are needed to purchase marketing services, the cost of which will likely vary from year to year. Those services will be most needed during a recession. Consequently, the Working Group judged it important to make TSF allocations both predictable and indexed to changes in the cost of goods.
- Appropriations for the Special Funds for Turtle Bay, the Convention Center, and DLNR lands are based in recent Legislative decisions that identified set amounts for these funds. No indexing of these fund amounts seeped appropriate.

The Working Group noted that TAT revenues could change over time with changes in the visitor plant, changes in occupancy, changes in room rates, and changes in tax compliance. Only one of these factors, room rates, is likely to vary in step with changes in the cost of goods. Consequently, TAT revenues could increase more quickly than inflation -- and have done so in recent years.

Cumulative Implications of the Models

The review of models under growth and recessionary conditions served to focus attention on highs and lows in allocations. The Working Group also considered the aggregate allocations over the period studied. Exhibit 3-4 shows those allocations for three models. A "shares" model provides a baseline against which others can be judged. The model chosen by the Working Group. That baseline would result in a larger aggregate appropriation for the TSF. In contrast, the model recommended by the Working Group yields less for the TSF and the Counties than the "shares" model. The model originally presented by the Allocation Models Investigative Group provides the least amounts to the TSF and Counties of the three models in Exhibit 3-4. While the State's Stage 2 share in that model is smaller than for others, the total spending for the State – Legislative Appropriations and the State's residual share – is larger than in the other two models.

Exhibit 3-4: Cumulative Allocations, Fiscal Years 2016 to 2025, with Growth Forecast

	1 (A): Shares	4(C1): Recom. by WG	7 (D1) IG Model
TSF	$1,111	$909	$820
Other Appropriations		$310	$441
Counties	$1,749	$1,717	$1,689
State[1]	$2,734	$2,655	$2,644

NOTES: Model labels combine the model numbers from this chapter and the specific letter + number labels in Appendix H.

WG: Working Group

IG: Allocation Models Investigative Group

(1) State amount does not include existing or new Legislative appropriations called out as line items in some models.

State-County Functions Working Group (TAT)
Findings and Purposes Statement Investigative Group

Draft of Findings and Purposes Sections of Proposed Bill
Implementing Working Group's Recommendations with Proposed Bill Included
October 31, 2015

A BILL FOR AN ACT

RELATING TO TRANSIENT ACCOMMODATIONS TAX.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

Section 1. **Findings.** The legislature finds that:

(1) The legislature, through Act 174 (Session Laws of Hawaii 2014), convened the State-County Functions Working Group to evaluate the division of duties and responsibilities between the state and counties relating to the provision of public services and to recommend an appropriate allocation of the transient accommodations tax revenues between the state and counties that properly reflects the division of duties and responsibilities relating to the provision of public services.

(2) Though the transient accommodations tax has evolved to meet the needs and purposes of the times, its structure and frequent amendment, combined with the cyclical nature of the visitor industry and the tax revenues it generates, has resulted in ongoing discussions among the various stakeholders, including the state, the counties, the visitor industry, the Hawaii Tourism Authority and other recipients or potential recipients of transient accommodations tax revenues.

(3) The State-County Functions Working Group, composed of state, county and visitor industry representatives and other knowledgeable and concerned citizens and aided by experts, considered the legislature's assignment for over a year and delivered to the legislature its final

unanimous report inclusive of analysis, findings, conclusions and recommendations.

(4) In particular, the State County Functions Working Group found and concluded that:

(a) The application of the transient accommodations tax and the allocation of its revenues should be simplified and stabilized so as to be clear, consistent and predictable over time.

(b) The tourism special fund should be provided a priority distribution of the transient accommodations tax revenues at an assured minimum level adjusted for inflation and regardless of overall transient accommodations tax collections.

(c) After the priority distribution of the transient accommodations tax revenues to the tourism special fund existing allocations to the convention center enterprise special fund, to natural resources protection subject to agreement between the board of land and natural resources and the Hawaii Tourism Authority, and to the Turtle Bay conservation easement special fund should be maintained at their current levels, with any additional state funding of such efforts made out of state general funds by separate appropriation.

(d) Based on a review of state and county functions, including tourism expenditures, an appropriate allocation of the remaining transient accommodations tax revenues is fifty five percent to the state general fund and forty five percent to the counties.

(e) There should be no fixed dollar amounts, caps, floors or similar restrictions on allocation to the state and counties of such remaining revenues, but both the state and the county allocations should increase or decrease proportionately with increasing or decreasing transient accommodations tax revenues.

(5) The State-County Functions Working Group recommendations reflect~~s~~ a fair, balanced and reasonable compromise of competing needs for scarce resources and a sound policy base for the further administration of the transient accommodations tax and its revenues.

Section 2. **Purposes.** The purposes of this Act are to (a) provide a fair, consistent and predictable minimum priority allocation of transient accommodations tax revenues to the tourism special fund, (b) confirm allocation of transient accommodations tax revenues to existing obligations at present levels, (c) provide a fair, consistent and predictable allocation of the balance of the transient accommodations tax revenues between the state and the counties, and (c) provide flexibility to the tourism special fund, state and counties in the utilization of their respective allocations.

Section 3. Section 237D-6.5, Hawaii Revised Statutes, is amended by amending subsection (b) in its entirety to read as follows:

"(b) Revenues collected under this chapter during each fiscal year shall be distributed as follows and in the following order:

(1) to the tourism special fund established under section 201B-11, $82,000,000 for fiscal year 2015-2016, and an amount for each fiscal year after fiscal year 2015-2016 equal to the amount for the prior year increased by an amount corresponding to any increase in the Consumer Price Index for All Urban Consumers for Honolulu, Hawaii(Base Year 1982-84 = 100) published by the Bureau of Labor Statistics over the prior year; provided that:

(A) in no event shall the distribution for any fiscal year be less than the distribution for the prior fiscal year; and

(B) of the revenues remaining in the tourism special fund except for any sum authorized by the legislature for expenditure from revenues subject to this paragraph, funds shall be deposited into the tourism emergency trust fund, established in section 201B-10, in a manner sufficient to maintain a fund balance of $5,000,000 in the tourism emergency trust fund;

(2) to the following specific purposes:

(A) $26,500,000, to the convention center enterprise special fund established under section 201B-8;

(B) $3,000,000, to be allocated subject to the mutual agreement of the board of land and natural resources and the board of directors of the Hawaii tourism authority in accordance with the Hawaii tourism authority strategic plan for:

(i) The protection, preservation, and enhancement of natural resources important to the visitor industry;

(ii) Planning, construction, and repair of facilities; and

(iii) Operation and maintenance costs of public lands connected with enhancing the visitor experience; and

(C) $1,500,000, to the Turtle Bay conservation easement special fund established under section 201B-8.6; and

(3) of the balance of the revenues after the distributions under subparts (1) and (2), fifty-five percent of such balance shall be distributed to the state and forty-five percent of such balance shall be distributed to the counties; provided that:

(A) the revenues distributed to the state shall be deposited into the state general fund; and

(B) of the revenues distributed to the counties: Kauai county shall receive 14.5 percent, Hawaii county shall receive 18.6 percent, the city and county of Honolulu shall receive 44.1 percent, and Maui county shall receive 22.8 percent; provided that a sum that represents the difference between a county public employer's annual required contribution for the separate trust fund established under section 87A-42 and the amount of the county public employer's contributions into that trust fund shall be retained by the state director of finance and deposited to the credit of the county public employer's annual required contribution into that trust fund in each fiscal year, as provided in section 87A-42, if the respective county fails to remit the total amount of the county's required annual contributions, as required under section 87A-43.

All transient accommodations taxes shall be paid into the state treasury each month within ten days after collection and shall be kept by the state director finance in special accounts for distribution as provided in this subsection.

As used in this subsection, "fiscal year" means the twelve-month period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year."”

Section 4. Section 201B-11(c)(2), Hawaii Revised Statutes, is repealed.

Section 5. This Act shall take effect on approval.