Agenda Item III a

Jayna Oshiro

From:	Erica Michel <erica.michel@ncsl.org>
Sent:	Thursday, October 30, 2014 12:46 PM
To:	Jayna Oshiro
Cc:	Brenda Erickson
Subject:	RE: Request for Assistance
Attachments:	State Lodging Taxes Legisbrief.pdf

Hi Jayna,

My colleague Brenda Erickson forwarded me your question about transient accommodations taxes in the states. NCSL last researched state lodging tax rates in 2012, and as far as we are aware, there have been no changes in statewide lodging taxes. Twenty-five states levy a statewide transient accommodations or occupancy tax. There are other states that apply a statewide sales tax to room rentals, but do not have an additional lodging tax. You can access a list of state lodging tax rates and information on our website here: http://www.ncsl.org/research/fiscal-policy/state-lodging-taxes.aspx. Please keep in mind this table does not include local lodging taxes, which many states allow municipalities to levy in place of, or in addition to a statewide tax. Additionally, attached is an NCSL legisbrief on lodging taxes, which goes into more detail on how states tax room rentals.

Regarding your second question, the Connecticut Office of Legislative Research published a report in 2013 that looks into local and state administration and collection of sales and lodging taxes. You can access that report here: http://www.cga.ct.gov/2013/rpt/2013-R-0345.htm

I hope this information is useful. Please let me know if you have any questions, or if there is anything else you need.

Best,

Erica Michel
Research Analyst II
National Conference of State Legislatures
7700 East First Place, Denver, CO 80230
303-856-1403 (office)
www.ncsl.org
Strengthening States for 40 Years

From: Jayna Oshiro [mailto:joshiro@auditor.state.hi.us]
Sent: Thursday, October 30, 2014 3:01 PM
To: Brenda Erickson
Subject: Request for Assistance

Hi Brenda,

We have the following questions and would like to ask for your assistance in referring us to someone in NCSL who would be able to assist us.

1) Do you know what states have transient accommodations/transient occupancy tax?
2) Of the states that do have transient accommodations/transient occupancy tax, do you know if the taxes are collected by the State or counties?

We really appreciate your assistance in this matter. Please let me know if you have any questions.

Thank you.

Jayna Oshiro
Analyst
Office of the Auditor, State of Hawaii
465 South King Street, Room 500
Honolulu, HI 96813-2917
Phone: (808) 587-0804
Fax: (808) 587-0830

National Conference of State Legislatures

LEGISBRIEF

BRIEFING PAPERS ON THE IMPORTANT ISSUES OF THE DAY

APRIL 2012

VOL. 20, NO. 14

State Lodging Taxes

By Erica Michel

State and local governments in nearly every state levy taxes on short-term accommodations—30 days or less in most states. Out-of-state visitors pay most of these taxes so raising them has become an increasingly common way for lawmakers to increase revenues without raising residents' taxes.

Lodging taxes have several components. Often, accommodations are subject to the same general state and local sales taxes that apply to most other purchases. Some states also impose specific lodging taxes, either in place of or in addition to the general sales tax. In addition, many states permit local governments to levy other lodging taxes.

Forty-eight states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands have taxes on lodging, either through a general sales tax or specific taxes on accommodations. Only Alaska and California do not levy a state lodging tax. Nevada does not impose a state tax on lodging, but it requires incorporated cities in all counties to levy at least a 1 percent local tax on lodging.

Only five states—Connecticut, Delaware, Hawaii, Maine and New Hampshire—do not allow municipalities to add an additional local tax on accommodations. In many states, lawmakers have imposed a cap on local lodging taxes, ensuring that travelers do not pay more than a certain total tax rate.

Taxing tourists presents a dilemma. Some tax experts claim that, because visitors contribute to a state's need to maintain public services, they should contribute their share to cover those services. Likewise, tourism taxes also have played a role in raising revenues for tourism development in many states.

Other tourism experts, however, are concerned that higher taxes are likely to have detrimental effects over time. If lodging operators are forced to lower prices to compete, revenue generated from lodging taxes would also decrease. Although tourists cannot vote against lodging tax increases in local elections, they can "vote with their feet"—spending their money in other destinations where taxes are lower. In fact, in the early 1990s, convention planners boycotted New York City when the city's taxes on hotel rooms exceeded 21 percent. Today the rate is 14.75 percent.

Did You Know?

- Forty-eight states, D.C., Puerto Rico and the U.S. Virgin Islands tax lodging.
- Nevada has no state lodging tax but requires cities to impose at least a 1% tax.
- New York City's 14.75% lodging tax is lower than its 21% rate in the 1990s.

Policymakers in a few states have increased taxes on accommodations to raise revenues. Hawaii raised its lodging tax in July 2010 from 8.25 percent to 9.25 percent. In FY 2011, the state collected $60 million more in revenues from transient accommodations than in FY 2010. The tax is in addition to the state's general excise tax of 4 percent. Connecticut increased its tax on accommodations from 12 percent to 15 percent in July 2011 in an effort to raise nearly $20 million annually to distribute to distressed municipalities.

Kansas and New Mexico also have increased their general sales or gross receipts tax, raising rates on hotel rooms when accommodations also are subject to the sales tax.

States use lodging tax revenues for various purposes, often to promote tourism. In 2003, North Dakota initiated a 1 percent accommodations tax for four years to promote and pay for a celebration of the Lewis and Clark expedition in the state.

As many states continue to grapple with budget difficulties, some are rethinking the allocations of their tourism revenue. In 2011, Washington became the first state to close its tourism office, redirecting the savings to the general fund.

To view a table and graph outlining the state rates on accommodations as of 2011, please visit NCSL's website here. The table and graph show the total state taxes on accommodations, breaking out state sales tax and specific lodging taxes. Most states allow municipalities to levy an additional sales tax and/or accommodations tax, which are not reflected in the table and graph.

NCSL Contacts and Resources

Mandy Rafool
NCSL—Denver
(303) 856-1561
mandy.rafool@ncsl.org

Erica Michel
NCSL—Denver
(303) 856-1403
erica.michel@ncsl.org

"State Tax Actions 2011: Special Fiscal Report"
"State Tax Actions 2010: Special Fiscal Report"

Other Contacts and Resources

"State Tax Guide," Commerce Clearing House. (Purchase required.)
"Survey of U.S. State & City Governments Taxing Policies on Selected Travel & Tourism Goods & Services," Center for Travel & Tourism. Denver: Daniels College of Business at the University of Denver, July 2007.

STATE LODGING TAX RATES

Specific Statewide Taxes on Lodging - By State

Posted April 3, 2012

Jump to Graphic

The following table contains state lodging tax rates. Please keep in mind that these taxes are often levied in addition to local lodging and/or sales taxes.

State	Sales Tax	Lodging Tax	Total State Tax
Alabama	N/A	4.0%	4.0%
Alaska	No state sales tax	N/A	None
Arizona	N/A	5.5%	5.5%
Arkansas	6.0%	1.0% [1]	7.0%
California	N/A	N/A	None
Colorado	2.9%	N/A	2.9%
*Connecticut	N/A	15.0%	15.0%

*Delaware	No state sales tax	8.0%	8.0%
Florida	6.0%	N/A	6.0%
Georgia	4.0%	N/A	4.0%
*Hawaii	4.0%	9.25%	13.25%
Idaho	6.0%	2.0%	8.0%
Illinois	6.0%[2]	N/A	6.0%
Indiana	7.0%	N/A	7.0%
Iowa	N/A	5.0%	5.0%
Kansas	6.3%	N/A	6.3%
Kentucky	6.0%	1.0%	7.0%
Louisiana	4.0%	N/A	4.0%
*Maine	N/A	7.0%	7.0%
Maryland	6.0%	N/A	6.0%
Massachusetts	N/A	5.7%	5.7%
Michigan	6.0%	N/A	6.0%
Minnesota	6.875%	N/A	6.875%
Mississippi	7.0%	N/A	7.0%
Missouri	4.225%	N/A	4.225%
Montana	3.0%[3]	4.0%	7.0%
Nebraska	5.5%	1.0%	6.5%
Nevada	N/A	N/A[4]	None
*New Hampshire	No state sales tax	9.0%	9.0%
New Jersey	7.0%	5.0%	12.0%
New Mexico	5.125%	N/A	5.125%
New York	4.0%	N/A	4.0%
North Carolina	4.75%	N/A	4.75%

- International
- Labor and Employment
- Military and Veterans Affairs
- Redistricting
- State-Tribal Institute
- Telecommunications and Information Technology
- Transportation

Share this:

North Dakota	5.0%	N/A	5.0%
Ohio	5.5%	N/A	5.5%
Oklahoma	4.5%	0.1%	4.6%
Oregon	No state sales tax	1.0%	1.0%
Pennsylvania	N/A	6.0%	6.0%
Rhode Island	7.0%	5.0%	12.0%
South Carolina	7.0%	N/A	7.0%
South Dakota	4.0%	1.5%[5]	5.5%
Tennessee	7.0%	N/A	7.0%
Texas	N/A	6.0%	6.0%
Utah	4.7%	N/A	4.7%
Vermont	N/A	9.0%	9.0%
Virginia	5%	N/A	5%
Washington	6.5%	N/A	6.5%
West Virginia	6%	N/A	6%
Wisconsin	5%	N/A	5%
Wyoming	4%	N/A	4%
District of Columbia	N/A	14.5%	14.5%
Puerto Rico	N/A	9%	9%
Virgin Islands	N/A	10%	10%

N/A = tax not levied on accommodations

* = no aditional local tax on accomodations

[1] Substitutes a 2% tourism tax on some accommodations.

[2] Sales tax is 6% of 94% of the gross rental receipts.

[3] Specific sales tax levied on accommodations. State has no general

sales tax.

[4] Incorporated cities must levy at least a 1% tax according to population.

[5] Seasonal (June – September)

Source, Commerce Clearing House, *State Tax Guide*, 2011

For more information contact, the Fiscal Affairs Program in Denver, Colo., telephone (303) 364-7700 or email econ-info@ncsl.org.

Denver

7700 East First Place
Denver, CO 80230
Tel: 303-364-7700 | Fax: 303-364-7800

Washington

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001
Tel: 202-624-5400 | Fax: 202-737-1069

OLR Research Report

October 23, 2013 2013-R-0345

LOCAL OPTION TAXES

By: Rute Pinho, Associate Analyst

You asked (1) which states allow local governments to impose local taxes on income, sales, or hotel charges (i.e., local option taxes); (2) how these taxes work; and (3) whether the states or local governments administer them. You also asked for a discussion of the advantages and disadvantages of allowing Connecticut municipalities to impose local option taxes.

SUMMARY

Nearly all states authorize local government entities (municipalities, counties, or school districts) to impose local taxes on income, sales, or hotel charges, but they vary considerably in how they structure and administer these taxes.

Thirteen states allow one or more of their local governments to levy income taxes. As with state income taxes, local income taxes are typically paid through payroll withholding, individual quarterly estimated payments, or annual returns. Some are imposed as a percentage of salaries or wages, while others are figured as a percentage of state tax liability or are a flat amount. In more than half of the states, local taxing jurisdictions administer and collect the taxes. Only five states (Indiana, Iowa, Maryland, New York, and Ohio (school districts only)) administer and collect the tax on the local government's behalf and periodically remit revenues back to them.

Thirty-eight states authorize local sales taxes, which generally follow the same structure as the underlying state sales tax. Although local sales tax rates are in many cases low (often 1% to 2%), some states authorize more than one type of local government to levy a tax, resulting in combined sales tax rates that are substantially higher than the state's base rate. Over half of the states authorize both counties and municipalities to levy the taxes, while the others authorize a mix of counties, municipalities, and other local entities to do so. Most of the states (32) administer the taxes at the state level and remit the revenues back to the localities.

All but five states (Connecticut, Delaware, Hawaii, Maine, and New Hampshire) authorize or require local governments to levy hotel taxes, which often apply in

addition to state sales and hotel taxes. We were unable to locate a list of local hotel taxes across the states, but we examined 10 states in the Northeast and Mid-Atlantic and found seven that authorize counties, municipalities, or both to levy the taxes. Three of the states (Massachusetts, Rhode Island, and Vermont) administer the taxes on behalf of the local governments, while in three others (Maryland, New York, and Pennsylvania) the local governments administer the taxes themselves. New Jersey differs in that the state administers municipal occupancy taxes, but individual municipalities administer city hotel taxes.

Among the advantages to local option taxes is that they provide cities and towns with greater revenue diversification and autonomy. They can reduce a municipality's reliance on the property tax and state aid and potentially shift some of the tax burden off of residents and onto nonresidents who come into town to work, shop, or vacation.

One of the disadvantages to local option taxes is that they increase the combined tax rates in an area. This could hurt the state's competitiveness in the region and limit its ability to raise tax rates in the future. Local taxes could also (1) create disparities among cities and towns, (2) encourage municipalities to make land use decisions to maximize local revenues, (3) increase administrative and compliance costs for taxpayers and government, or (4) make cities and towns more vulnerable to economic downturns.

LOCAL INCOME TAXES

Table 1 below provides information on local income taxes in the 13 states that authorize them. For each state, it shows (1) the type and number of local taxing jurisdictions, (2) the tax rate and base, (3) how the state treats resident and nonresident taxpayers, and (4) the level at which the tax is administered. For purposes of this report, the table excludes California, New Jersey, Oregon, and West Virginia, which authorize local income taxes (or payroll taxes) on employers only, not employees living in a local jurisdiction.

In four states (Indiana, Iowa, Maryland, and Pennsylvania), local income taxes apply in most or all parts of the state. All 92 counties in Indiana, for example, impose an income tax. In five other states (Alabama, Kansas, Kentucky, Michigan, and Ohio), local income taxes are widespread, but do not apply to the entire state. In the remaining four (Colorado, Delaware, Missouri, and New York), the taxes apply in one or a few municipalities. In New York, for example, only New York City and Yonkers impose a tax.

As with state income taxes, local income taxes are typically paid through payroll withholding, individual quarterly estimated payments, or annual returns. Some are imposed as a percentage of salaries or wages, while others are figured as a percentage of state tax liability or are a flat amount. Although not included in the table, local income taxes may also apply to resident trusts and estates within the local taxing jurisdiction.

The states vary in their relative treatment of resident and nonresident income earned in the local jurisdictions. In most of the states, the tax rates that apply to nonresident taxpayers are the same or lower than those that apply to residents. In Pennsylvania, however, some local jurisdictions have higher rates for nonresidents than for residents. In contrast, local income taxes in Iowa and New York City apply only to residents.

In most of the states, the local taxing jurisdiction collects and administers the tax. Only in Indiana, Iowa, Maryland, and New York does the state collect the tax on the local government's behalf. In these states, taxpayers pay their local income tax when they file their state income tax forms. In Ohio, cities and towns administer municipal income taxes and the state administers school district income taxes. Pennsylvania differs from the other states in that it requires municipal and school district income taxes to be collected and administered on a regional basis by designated tax collection districts.

Table 1: Local Income Tax Rates and Administration By State

State	*Number and Type of Local Taxing Jurisdictions*	*Rate(s) and Base*	*Resident and Nonresident Treatment*	*Administration*
Alabama	Approximately 28 jurisdictions (27 municipalities and one county)	Ranges from 0.5% to 3% of gross receipts or compensation	Same	Local
Colorado	5 municipalities (Aurora, Denver, Glendale, Greenwood Village, and Sheridan)	Ranges from $2 per month to $5.75 per month of compensation over a certain threshold amount (from $250 to $750 per month)	Same	Local
Delaware	1 municipality (Wilmington)	1.25% of applicable wages and earned income	Same	Local
Indiana	All 92 counties (Lake County's tax takes effect October 1, 2013)	Three different income tax programs available with varying rates (ranging from 0.1% to 3.13%) and parameters for their use (i.e., county adjusted gross income tax (CAGIT), county option income tax (COIT), and county economic development income tax) Supplemental rates for property tax relief and public safety (applicable only to counties that impose the CAGIT or COIT) • Up to 1% to provide property tax relief	Nonresidents taxed at lower rate, though they may not be taxed	State

		• Up to 1% in counties that have adopted a property tax freeze • Up to 0.25% to fund police protection and various emergency response services		
Iowa	297 school districts (82% of total districts) and one county (Appanoose County)	School districts may levy an income tax surtax of up to 20% of state income due Counties may levy an income tax surtax of up to 1% to fund emergency medical services (cumulative income surtax imposed on any taxpayer in a county may not exceed 20%)	Residents only	State
Kansas	29 counties (of 105 total counties), 101 cities, and 382 townships	Tax on gross earnings received from intangible property, such as savings accounts, stocks, bonds, accounts receivable, and mortgages Maximum rate of (1) 0.75% tax for counties and (2) 2.25% tax for cities and townships	Same	Local (county collects and distributes the tax revenue, on forms the Kansas Department of Revenue prescribes)
Kentucky	Over 200 cities, counties, and school districts	Tax on salaries, wages, commissions, and other compensation earned by people within the jurisdiction Levied either on a flat-rate schedule (e.g., $1 per taxing district for work performed or rendered there (certain cities and counties also impose a tax on business net profits from activities conducted week) or as a percentage of gross wages (ranging from 0.05% to 2.5%)	Some jurisdictions tax nonresidents, others do not; rates are the same in those that do	Local
Maryland	All 23 counties and Baltimore	Tax ranges from 1.25% to 3.20% of taxable income	Same	State
Michigan	22 cities	Tax applies to (1) resident income, (2) nonresident income arising from sources in the taxing city, and (3) corporate net profits attributable to business activity in the city. • Generally, the tax rate is 1% for residents, 0.5% for nonresidents, and 1% for corporations	Nonresidents taxed at lower rate	Local

		• In Detroit, the rate is 2.4% for residents, 1.2% for nonresidents, and 2% for corporations • In Grand Rapids and Saginaw, the rate is 1.5% for residents, 0.75% for nonresidents, and 1.5% for corporations • In Highland Park, the rate is 2% for residents and 1% for nonresidents		
Missouri	2 cities (Kansas City and St. Louis)	1% tax on (1) residents' earnings, (2) nonresidents' earnings from services performed in the city, and (3) net profits of businesses and the self-employed doing business in the city	Same	Local
New York	2 cities (New York City and Yonkers)	In New York City, the tax rate varies by income and filing status • Rates range from 2.907% to 3.876% In Yonkers, the tax is 15% for residents and 0.5% for nonresidents, of net state tax liability	Residents only (New York City) Nonresidents taxed at lower rate (Yonkers)	State
Ohio	592 (of 932) municipalities and 184 (of 614) school districts	Municipal income taxes apply to residents, nonresidents, and businesses that have earned profits within the municipality • Rate is determined locally, but the maximum rate without voter approval is 1% • In 2011, rates ranged from 0.4% to 3% of income School district taxes apply to individuals residing in the district • District sets rates, with voter approval, in increments of 0.25%; In FY 12, rates ranged from 0.25% to 2% • In most districts, the tax applies to Ohio taxable income; select districts apply the tax only to earned income (i.e., wages and compensation)	Same	Local (municipal taxes) State (school district taxes)

Pennsylvania	2,492 (of 2,562) municipalities and 469 (of 500) school districts	Municipalities may impose an earned income tax of up to 1% on wages and net profits, except for home rule cities (e.g., Philadelphia, Pittsburgh, and Scranton), which have no limit • Rates range from 1% to 3.93% • If both a municipality and its school district impose the tax, the maximum rate for the two together is 1%	May be imposed on either residents only or both residents and nonresidents; Nonresident rates may be higher or lower than resident	Regional (69 tax collection districts collect local income taxes on behalf of municipalities and school districts)

Source: State and local government websites; CCH *State Tax Guide*; Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy," paper presented at the Lincoln Institute of Land Policy's 2009 Land Policy Conference; Henchman, Joseph and Jason Sapia, "Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane," Tax Foundation, August 31, 2011.

LOCAL SALES TAXES

Table 2 lists the 38 states that authorize local sales taxes. For each state, it indicates the (1) types of local taxing jurisdictions, (2) state tax rate, (3) range of local tax rates, and (4) level at which the tax is administered.

As the table shows, local option sales taxes vary considerably across the states. Thirty-five of the 37 states specify a sales tax rate or range local governments may levy, while three do not specify a limit. In 22 of the states, counties and municipalities (and in some cases other local governments) are authorized to levy the taxes. Five states (Alaska, Mississippi, Montana, Nebraska, and Vermont) authorize only municipalities to levy a sales tax, while five others (Florida, Hawaii, Idaho, North Carolina, and Wyoming) authorize only counties to do so. The remaining six states (Louisiana, Ohio, South Carolina, South Dakota, West Virginia, and Wisconsin) authorize a mixture of counties, cities, and other local governments to levy sales taxes (e.g., special taxing districts and transit authorities).

Most of the states (32) administer the local sales taxes at the state level. With the exception of Alaska and Montana, all of the states listed also impose a state sales tax.

Table 2: Local Sales Tax Rates and Administration By State

State	*Types Of Local Taxing Jurisdictions*	*State Sales Tax Rate (%)*	*Local Sales Tax Rate(S)*	*Administration*
Alabama	Cities, counties	4	0.25% - 5%	State, local jurisdictions, or third-party vendors
Alaska	Cities, boroughs	No tax	No statutory limit	Local

Arizona	Cities, counties	5.6	No statutory limit	State administers county taxes; Municipalities may either have the state administer the taxes or administer them locally
Arkansas	Cities, counties	6.5	Up to 3% for counties and up to 3.5% for cities.	State
California	Cities, counties, special districts	7.5	Up to 1%	State
Colorado	Cities, counties, certain special districts	2.9	No statutory limit	Home rule cities administer their own taxes; State administers the taxes for statutory cities and all counties
Florida	Counties	6	Up to 1.5%	State; Counties may administer certain taxes after adopting an ordinance
Georgia	Cities, counties, transit authorities	4	Up to 2%	State
Hawaii	Counties	4	0.5% (Honolulu county surcharge)	State
Idaho	Counties	6	Up to 0.5% for county sales tax; no limit for resort city sales tax	Local jurisdiction or state
Illinois	Cities, counties, transit authorities, certain special districts	6.25	Rate increases in increments of 0.25% allowed	State, with some exceptions
Iowa	Counties, cities	6	Up to 1%	State
Kansas	Cities, counties, transportation districts	6.15	Up to 2%	State
Louisiana	Cities, parishes, school districts, certain special districts	4	For counties, up to 6%; For cities, up to 5.99%	State

Minnesota	Cities, counties, transit improvement districts	6.875	Up to 1%	State
Mississippi	Cities	7	0.25%	State
Missouri	Cities, counties, certain special districts	4.225	0.5% - 6.625%	State
Montana	Cities	No tax	Up to 3% in certain resort communities and areas	Local
Nebraska	Cities	5.5	Up to 1.5% for counties, municipal counties, and cities of a metropolitan class; Up to 2% for an incorporated municipality	State
Nevada	Counties, Carson City	6.85	Up to 1.25%	State
New Mexico	Cities, counties	5.125	Up to 1.25%	State
New York	Cities, counties	4	Up to 3%	State
North Carolina	Counties	4.75	Up to 3%	State
North Dakota	Cities, counties	5	Up to 2%	State
Ohio	Counties, transit authorities	5.75	Up to 1.5% for counties; up to 1.5% for transit district	State
Oklahoma	Cities, counties	4.5	Up to 2% for county and special taxing jurisdiction taxes	State
Pennsylvania	Cities, counties	6	2% in Philadelphia; 1% in Allegheny County	State
South Carolina	Counties, school districts, Indian tribe	6	Up to 1%	State
South Dakota		4		State

	Cities, special jurisdictions (Indian tribes)		Generally up to 2% (cities may impose additional tax under certain conditions)	
Tennessee	Cities, counties	7	Up to 2.75%	State
Texas	Cities, counties, special purpose districts, transit authorities	6.25	Up to 2% (combined rate of all local levies may not exceed 2% in any location)	State
Utah	Cities, counties	4.7	1%	State
Vermont	Cities	6	1%	State
Virginia	Counties, independent cities	4.3	Up to 1%	State
Washington	Cities, counties, regional transit authorities	6.5	Up to 1%	State
West Virginia	Cities, special districts	6	Up to 1% for municipal sales taxes; up to 6% for special district excise taxes	State
Wisconsin	Counties, certain special districts	5	Up to 0.5% (county and special district taxes)	State
Wyoming	Counties	4	Up to 2% for general or special purpose tax; up to 1% for economic development tax (combined local rates in a county may not exceed 3%)	State

Source: CCH *Smart Charts*; Sales Tax Institute, *State Sales Tax Rates*, October 1, 2013; NCSL, *Local Option Taxes;* Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy," paper presented at the Lincoln Institute of Land Policy's 2009 Land Policy Conference

LOCAL HOTEL TAXES

Every state, except Alaska and California, taxes room rentals, either through a general sales tax, excise tax on lodging (i.e., hotel tax), or both. All but five states (Connecticut, Delaware, Hawaii, Maine, and New Hampshire) authorize or require local governments to levy additional hotel taxes (Michel, Erica. *State Lodging Taxes*, National Conference of State Legislatures (NCSL) Legisbrief, April 2012.) According to a 2011 report by the Center for Budget and Policy Priorities, hotel taxes are often earmarked for tourism promotion and related purposes (e.g., paying bonds issued for a convention center) (Mazerov, Michael. "State and Local Governments Should Close Online Hotel Tax Loophole and Collect Taxes Owed," April 12, 2011.)

Table 3 shows state and local hotel tax rates in selected states and, where applicable, indicates the types of local taxing jurisdictions and how the local tax is administered. As the table shows, seven of the 10 selected states allow counties, municipalities, or both to levy hotel taxes. The states vary in how they administer the local taxes. In Maryland, New York, and Pennsylvania, counties and municipalities generally administer the taxes themselves. In Massachusetts, Rhode Island, and Vermont, the state generally administers and collects the local taxes on behalf of municipalities. New Jersey differs in that the state administers municipal occupancy taxes, but individual municipalities administer city hotel taxes.

Table 3: State and Local Hotel Tax Rates In Selected States

State	*Types of Local Taxing Jurisdictions*	*State Hotel Tax Rate (%)*	*Local Rates*	*Local Hotel Tax Administration*
Connecticut	None	15	No tax	N/A
Maine*	None	7.0	No tax	N/A
Maryland*	Counties, municipalities	No tax	Counties may levy a hotel tax, from up to 3% or up to 9.5%, depending on the county and as specified by law; certain municipalities may levy an additional tax of up to 2%	Local
Massachusetts	Municipalities	5.7	Up to 6% (6.5% in Boston); Boston, Cambridge, Chicopee, Springfield, West Springfield, and Worcester may add a 2.75% convention center financing fee	State
New Hampshire	None	9	No tax	N/A
New Jersey*	Municipalities	5 (with a few exceptions)	Up to 3% municipal occupancy tax; Select municipalities are prohibited from enacting an occupancy tax because they already impose local hotel occupancy taxes, ranging from 1.85% to 9%	State collects municipal occupancy taxes along with the state occupancy fee; municipalities administer city hotel taxes
New York*	Municipalities	No tax	Up to 5.875% (New York City charges a daily hotel fee of $1.50 per room)	

				Local, except that the state collects the $1.50 daily hotel fee
Pennsylvania	Counties and Philadelphia	6.0	8.5% in Philadelphia; select counties authorized to levy an additional tax (generally 3%)	Local
Rhode Island*	Municipalities	5.0	1%	State, except that the city of Newport collects the tax locally and distributes it according to a statutory schedule
Vermont	Municipalities	9	1% (applies only in certain municipalities)	State

NCSL *State Lodging Tax Rates*, April 3, 2012; CCH *State Tax Guide;* State and local tax department websites

* Room rentals also subject to state sales taxes in Maine, Maryland, New Jersey, New York, and Rhode Island.

ADVANTAGES AND DISADVANTAGES OF LOCAL OPTION TAXES

Advantages

A major advantage to local option taxes is that they allow municipalities to diversify their revenue sources and subsequently reduce their reliance on the property tax. Currently, cities and towns faced with stagnant or depreciating property tax bases and rising public service costs are forced to either reduce or eliminate services or tax homeowners and businesses at higher rates to pay for them. The revenues from a local tax could help support a municipality's programs and services and consequently reduce the pressure to cut or eliminate them or increase property taxes to maintain them.

Local option taxes could also reduce municipalities' reliance on state aid. As the cost of municipal services has increased, cities and towns have turned to the state for assistance. In time, as state aid constitutes a growing share of municipal budgets, cities and towns become more vulnerable to the state's fiscal situation. Thus, by diversifying local revenues, cities and towns can be less dependent on the state's ability to fund municipal grants-in-aid.

Another advantage to local option taxes is the potential to levy taxes on a tax base that reflects an area's economic strengths, such as retail or tourism. For example, a local sales tax would allow a town that hosts a large number of retail outlets to capture revenue from retail sales. Similarly, a local hotel tax would allow municipalities in tourist areas to capture revenue from room rentals. This also allows municipalities to shift some of the tax burden off of residents and onto nonresidents who come into town to work, shop, or vacation.

Local option taxes could also increase local autonomy. They give municipalities and voters the option to levy a tax to pay for services that state taxpayers may be unwilling to fund. And because state funds often come with specific requirements or constraints, a local revenue source would give cities and towns more control over their spending decisions. This could also lead to greater accountability for taxing and spending decisions.

Disadvantages

One of the major disadvantages to local option taxes is that they increase the combined state and local tax rates in an area. The addition of local taxes could hurt the state's competitiveness in the region and limit the state's ability to raise tax rates in the future.

Local taxes could also create disparities among municipalities. While local taxes could help municipalities generate additional revenues from untapped sources (e.g., retail or tourism), the revenue generating capacity from these taxes is not evenly distributed across municipalities. On average, larger municipalities are likely to benefit more from local taxes than smaller ones. High-income, property-rich municipalities would gain more local option tax capacity than low-income, property-poor municipalities.

Another disadvantage is that local taxes could encourage municipalities to make land use decisions to maximize local revenues at the expense of promoting affordable housing or preserving open space (commonly referred to as the "fiscalization of land use"). For example, a local option sales tax could put pressure on a town to promote commercial developments over housing and other non-retail developments. This runs contrary to the state's policy of promoting regionalism and smart growth.

In addition, local taxes could increase administrative and compliance costs for taxpayers and government, particularly municipalities, which do not already have the capacity to administer an income or sales tax. Local taxes could also cause tax competition among cities and towns that want to attract new or expanding businesses.

Lastly, shifting the tax burden from property taxes to sales, hotel, or income taxes could make local governments more vulnerable to economic downturns. Property tax revenue is stable in economic good times and bad, and it grows roughly in line with population and inflation. Sales, hotel, and income tax revenue, however, is more cyclical and less predictable. Consequently, local option taxes could create fiscal difficulties for local governments during economic downturns if their revenue collections fall below their original forecasts (NCSL, *Local Option Taxes,* January 2008; Zhao, Bo. "The Fiscal Impact of Potential Local-Option Taxes in Massachusetts," New England Public Policy Center, 2010; Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy").

HYPERLINKS

Henchman and Sapia, "Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane," http://taxfoundation.org/article/local-income-taxes-city-and-county-level-income-and-wage-taxes-continue-wane, last visited October 21, 2013.

Mazerov, Michael. "State and Local Governments Should Close Online Hotel Tax Loophole and Collect Taxes Owed," *Center for Budget and Policy Priorities,* http://www.cbpp.org/cms/?fa=view&id=3467, last visited October 21, 2013.

Michel, Erica. *State Lodging Taxes*, National Conference of State Legislatures, http://www.ncsl.org/research/fiscal-policy/state-lodging-taxes.aspx, last visited October 21, 2013.

Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy," paper presented at the Lincoln Institute of Land Policy's 2009 Land Policy Conference, https://www.lincolninst.edu/pubs/download.asp?doc_id=1038&pub_id=1765, last visited October 21, 2013.

Sales Tax Institute, *State Sales Tax Rates*, http://www.salestaxinstitute.com/resources/rates, last visited October 21, 2013.

Zhao, Bo. "The Fiscal Impact of Potential Local-Option Taxes in Massachusetts," New England Public Policy Center, 2010, http://www.bostonfed.org/economic/neppc/wp/2010/neppcwp102.pdf, last visited October 21, 2013.

RP:ts

Agenda Item III c

State-County Functions Working Group (Transient Accommodations Tax)

TAT Measures **dead/alive**

Dead

HB 373	Relating to the Transient Accommodations Tax
HB 379	Relating to Financing for a New Hospital in North Kona
HB 403	Relating to the Transient Accommodations Tax
HB 833	Relating to the Transient Accommodations Tax
HB 954	Relating to the Transient Accommodations Tax
HB 1257	Relating to the Transient Accommodations Tax
HB 1448	Relating to the Transient Accommodations Tax
SB 408	Relating to the Transient Accommodations Tax
SB 534	Relating to the Transient Accommodations Tax
SB 617	Relating to Beach Protection
SB 1173	Relating to the Acquisition of Scenic Lands at Kapua in Miloli'i on the Island of Hawai'i '
SB 1356	Relating to the Transient Accommodations Tax

Alive

HB 169	Relating to Taxation
HB 197	Relating to the Transient Accommodations Tax
HB 444	Relating to Beach Protection
HB 716	Relating to Innovative Business Interactions
HB 1214	Relating to the State-County Functions Working Group
SB 284	Relating to the Transient Accommodations Tax

Agenda Item III c

State-County Functions Working Group (Transient Accommodations Tax)
Testimonies for SCFWG

Date	Bill No.	Bill Title	Senate/House Committee
2/4/2015	HB 1257	Relating to the Transient Accommodations Tax	House Committee on Tourism
2/4/2015	HB 1448	Relating to the Transient Accommodations Tax	House Committee on Tourism
2/6/2015	HB 954	Relating to the Transient Accommodations Tax	House Committee on Water and Land
2/11/2015	HB 1214	Relating to the State-County Functions Working Group	House Committee on Legislative Management
2/11/2015	SB 1173	Relating to the Acquisition of Scenic Lands at Kapua in Miloli'i on the Island of Hawai'i	Senate Committees on Tourism and International Affairs and Water and Land
2/11/2015	SB 1356	Relating to the Transient Accommodations Tax	Senate Committees on Tourism and International Affairs and Water and Land
2/11/2015	SB 284	Relating to the Transient Accommodations Tax	Senate Committees on Tourism and International Affairs and Water and Land
2/11/2015	SB 617	Relating to Beach Protection	Senate Committees on Tourism and International Affairs and Water and Land
2/11/2015	SB 534	Relating to Transient Accommodations Tax	Senate Committees on Tourism and International Affairs, Water and Land, Public Safety, Intergovernmental and Military Affairs
2/18/2015	HB 197	Relating to Transient Accommodations Tax	House Committee on Tourism
2/18/2015	HB 373	Relating to Transient Accommodations Tax	House Committee on Tourism
2/18/2015	HB 833	Relating to Transient Accommodations Tax	House Committee on Tourism
2/18/2015	HB 403	Relating to Transient Accommodations Tax	House Committee on Tourism
2/18/2015	HB 444, HD1	Relating to Beach Protection	House Committee on Tourism
2/18/2015	HB 379, HD1	Relating to Financing for a New Hospital in North Kona	House Committee on Tourism
2/19/2015	SB 408	Relating to the Transient Accommodations Tax	Senate Committees on Tourism and International Affairs, Public Safety, Intergovernmental and Military Affairs
2/25/2015	HB 1214	Relating to the State-County Functions Working Group	House Committee on Finance
2/26/2015	HB 169, HD1	Relating to Taxation	House Committee on Finance
2/26/2015	SB 284, SD1	Relating to the Transient Accommodations Tax	Senate Committee on Ways and Means
2/26/2015	HB 197, HD1	Relating to the Transient Accommodations Tax	House Committee on Finance
2/26/2015	HB 444, HD2	Relating to Beach Protection	House Committee on Finance
3/3/2015 3/4/2015	SB 284, Proposed SD2	Relating to the Transient Accommodations Tax	Senate Committee on Ways and Means
3/4/2015	HB 716, HD1	Relating to Innovative Business Interactions	House Committee on Finance

3/18/2015	SB 284, SD2	Relating to the Transient Accommodations Tax	House Committee on Tourism
3/23/2015	HB 444, HD3	Relating to Beach Protection	Senate Committees on Tourism and International Affairs and Water and Land
3/24/2015	HB 1214, HD1	Relating to the State-County Functions Working Group	Senate Committee on Public Safety, Intergovernmental and Military Affairs
3/25/2015	SB 284, SD2	Relating to the Transient Accommodations Tax	House Committee on Water & Land

Department of Taxation
Presentation handouts – April 1, 2015

County Revenues

The counties' plea for more money is not unique to Hawaii. Across the country, local governments are looking to the state for more assistance, and the states in turn are looking to the federal government for the same. As the federal government tries to cope with its budget problems, it will have a tendency to pass along responsibilities--and costs--to the states while at the same time competing with the states for revenues. Local governments are in a precarious position because they face growing demands but have limited power. A knowledgeable observer at the national level has suggested that the result will be a period of "fend-for-yourself federalism" and believes this will be *the* issue facing state legislatures in the 1990s.

This has a unique twist in Hawaii because education is funded at the State level and the amount of power vested in the counties is less than is typical throughout the rest of the country. That uniqueness has made the debate over county revenues in Hawaii more contentious because comparisons are not easily drawn, and it has been difficult to establish suitable reference points for analysis.

There is a recognition across the country that state/local relations need sorting out. Recent studies have focused not only on the tax and revenue implications of intergovernmental policies but also on the efficiency and quality-of-life questions that arise because of the changing responsibilities and shifting balances between levels of government.

In Hawaii, every committee, commission, advisory group, or task force that has looked into the State/county relationship has had a limited scope and studied certain issues more or less in isolation. The result has been a series of partial analyses rather than the comprehensive analysis that is needed. A comprehensive analysis would cover revenues, spending, and the allocation of functions and responsibilities between the State and the counties.

The Tax Review Commission's mandate is limited to evaluating the tax structure and recommending tax and revenue policy, so this review should be considered a preliminary step in the process of sorting out State and county relationships in Hawaii.

County Revenues: A Question of Efficiency and Revenue Flexibility The debate over county revenues in Hawaii has been framed in terms of whether or not the counties "need" more money. That is not helpful or useful because it amounts to a disagreement over identifying the exact point at which the counties will be in distress. The two possible outcomes of the current approach to county revenues are: (1) at some point services will be allowed to deteriorate, or (2) property taxes will be increased and eventually reach a level that will not be tolerated.

The focus on waiting until the counties are in distress is ill considered. An analysis of county revenues should instead focus on the allocation of functional responsibilities and revenue authority between the State and the counties, with the goal of ensuring the efficient delivery of public services.

Efficiency in this context can be understood to have two general senses. The first relates to the overall level of economic activity and the role of government when the market fails to provide goods and services, and when private actions give rise to benefits and costs that are not taken into account by the market. The second sense of efficiency concerns the desire to ensure that public services are delivered at minimum cost.

Revenue flexibility is an overlooked aspect of efficiency. Unless a local government can finance public services in a manner that reflects to some degree the cost and beneficiaries of the services it provides, there will be inefficiencies. For example, the trend is to tout user fees and benefit charges as the preferred means of financing local government, and to the extent that fees and charges can be administered at reasonable cost and do not impose undue hardship on the poor, they probably ought to be used. In many instances, however, local governments provide services for which fees and charges might not always be appropriate, such as for police and fire protection. In such cases, much of the financing must come from other sources.

With the property tax often likened to a benefit charge, there is pressure to have the property tax assume the function of financing local services for which fees and charges are insufficient or inappropriate. In Hawaii, however, the property tax also funds services, particularly in support of the visitor industry, that often bear little direct relationship to benefits received by property owners. In addition, given the large percentage of renters in Hawaii relative to other states, the connection between public services and beneficiaries is often obscured because renters do not see the direct impact of property taxes.

Finally, the property tax is an unpopular tax. It was the property tax that sparked the "Tax Revolt" with Proposition 13 in California and Proposition 2-1/2 in Massachusetts. To insist that the counties rely solely on the property tax and be forced to increase property taxes against the protests of citizens, because of a fashion for fees and benefit charges, is an unreasonable demand.

Balance within Hawaii's fiscal system Fiscal balance, in its various dimensions, is a concept of fundamental importance to the analysis of any state-local fiscal system. Fiscal balance is a precondition for the economic neutrality of the system. Unless fiscal disparities are fully capitalized in property values--an unlikely prospect--they provide purely fiscal incentives for people and businesses to move from one locality to another (or not to move when economic considerations call for it). The result is a less efficient economy and lower incomes for residents than might otherwise have been achieved.

A balanced fiscal system is also important to avoid serious inequities among residents of different ares of the state. Such inequities arise when the tax burdens on residents with similar incomes living in different localities differ for comparable levels of services.

The central issue in evaluating fiscal balance is the relationship between revenue-raising ability and the cost of the expenditure responsibilities of the governments in a state. Two important dimensions of fiscal balance are vertical balance and horizontal balance.

A state's fiscal system is vertically balanced when the cost of the expenditure responsibilities assumed by the state government, on the one hand, and local governments as a group, on the other hand, are roughly commensurate with the potential productivity at reasonable rate of the revenue sources available to each level of government.

The data for fiscal 1987 suggest that both revenues and expenditures for the State of Hawaii exceed the national average: revenues were around 40 percent above average, while expenditures were about 30 percent above average. County revenues and expenditures, on the other hand, were both below the national average, at about 40 percent of average.

These data suggest that to the extent that vertical imbalance does exist in the Hawaii fiscal system, it occurs at the State level, where revenues relative to the national average exceed expenditures relative to the national average.

Horizontal balance exists when the fiscal capacity of each county is adequate to enable it to provide some specified levels of services for which it is responsible, without excessive tax rates. Fiscal capacity means the potential ability of a county to raise revenues from its own sources relative to the costs of its service responsibilities.

The data for fiscal 1987 indicate that there is a moderate horizontal imbalance in Hawaii, that is, the counties are not quite equal in revenue capacity or expenditure requirements, and State grant-in-aid programs have not tended to improve the situation. Horizontal imbalance may not necessarily be a problem if it reflects differing preferences for services among the counties.

State/County Relations in Hawaii The question of county revenues in Hawaii can be properly addressed only within the context of the entire State and county relationship. A review of the history of Hawaii's State/county system suggests a number of conclusions.

First, simplicity of structure has not produced simplicity in or consensus on the division of functional responsibilities and revenue-raising authority between the State and the counties.

Second, the constitutional and political goals of giving the State government sufficient authority and fiscal capacity to address "statewide concerns" have not been addressed satisfactorily. There has been considerable debate over what constitute areas of "statewide" concern and the extent to which that rubric could be used to maintain control over county decisions.

Third, the State Constitution provides neither sufficient detail on State/county relations nor sufficient home rule to ensure stability in those arrangements. Instead, the legislature and, secondarily, the administration and the supreme court have considerable discretion to tinker with the State/county system, particularly with county powers, and to intervene directly in county affairs.

Fourth, increases in governing authority for the counties have been obtained more often through constitutional revision than through the legislative process, even though local self-government has never been an especially prominent issue in any constitutional convention.

Fifth, the legislative process has generally produced a greater centralization of functional responsibilities in the State since 1959.

Sixth, practically every independent body established to study the allocation of functional responsibilities and revenue-raising authority has, to a greater or lesser degree, recommended increased local self-government.

This suggests a paternalistic relationship perpetuated by State and county officials. Arguments against granting the counties additional revenue authority or responsibilities frequently rest on the notion that the counties are not "mature" enough to manage or are not equipped to administer new responsibilities. The counties, for their part, have often contributed to the continuation of paternalism by indicating a preference for either State grant-in-aid programs or a tax sharing over county taxing powers. A continued reliance on State grants or shared taxes delays the development of county capability for handling local functions and reinforces the case for not expanding county authority and responsibility.

Division of Service Responsibilities In a market economy, such as that of the United States, decisions about the allocation of resources are made by individual consumers and investors. In an economy of this type, governments have important roles to play when markets fail. Among the most important of these roles are the provision of goods and services for which people would be willing to pay but that are not be available in the market, and ensuring that benefits and costs external to market transactions (often referred to as "spillovers," or "externalities") are taken into account in private decisions. It is also important that governments minimize their unintended effects on economic behavior, as when tax and other policies modify relative prices.

Conceptual considerations offer a powerful rationale for structuring decision-making and the financing and delivery of public services on a decentralized basis to the maximum possible extent. Decentralization significantly enhances the effectiveness of the political process. In a decentralized system, choices about expenditures are closely linked to costs. A corollary of decentralization is the principle of autonomy, which calls for restraint by state governments in their dealings with local jurisdictions.

In general, the essence of the allocation of functional responsibilities among governments lies in an effort to assign each to the jurisdiction whose borders most closely correspond to the range of benefits from a service, so that responsibility vests with the smallest unit of government that can efficiently provide the service. Even the most conscientious effort to assign responsibilities in accord with this logic, however, will leave cases where some of the benefits or costs of a service will spill over the boundaries of the government providing the service.

The importance of this in the case of local governments is that these spillovers, or externalities, will be ignored by local decision-makers. As a consequence, they will produce less of the service than would be appropriate if the demands of all beneficiaries were taken into account, thereby reducing the overall efficiency of the economy. The state government can ensure that the right amount of the service is produced by subsidizing the financing of the service to the extent of the external benefits.

In the special case of benefits that are received by visitors to a locality (an especially important case for Hawaii, where visitors are major beneficiaries of many local services) the state may be able to ensure that the right amount of a service is produced by making taxing authority available to the locality that enables it to collect from visitors an appropriate share of the cost of the service.

When action by a local government creates external costs, the responsibility of the state is to ensure that those costs are paid by the locality. Most analysts agree that programs whose major objectives relate to the distribution of income and wealth--public welfare, for example--should be the responsibility of the federal government, with possible involvement of state governments in adapting broad national policies to the specific conditions of individual states. Local governments, however, should confine their agendas to the provision of services that do not have strong elements of income redistribution, and finance those services to the maximum possible extent in accordance with the benefit principle. The simple logic of this is that local tax bases and service populations tend to be too mobile to permit the differences between taxes paid and benefits received that are the essence of redistributive policies to be sustained if they reach significant magnitudes.

In addition to spillovers, the existence of substantial fiscal disparities among local governments is also an important rationale for action by a state government. This is the heart of the issue of horizontal fiscal balance.

Assignment of Revenue Authority The overall efficiency of the economy is impaired when the fiscal system is not "neutral," that is, when tax (and service) differentials among jurisdictions influence the decisions of individuals and businesses about where to locate, or induce people to incur substantial costs in efforts to avoid taxes.

Differentials could be avoided by imposing a uniform tax structure throughout the state, but this would be inconsistent with the existence of autonomous local governments. Autonomy without independent authority to raise revenues is a contradiction in terms.

This being the case, the approach most consistent with economic efficiency is for localities to tax bases with low mobility. The base with the lowest mobility is real property (land, of course, has no mobility) so it is not surprising that the property tax is universally viewed as the most appropriate tax for local governments. User charges are also well suited to local governments because--by linking payments to benefits actually received--they do not create an incentive for people to modify their economic behavior.

Consumption taxes are usually regarded as appropriate for state governments but not localities because of the so-called border problem--the ease of avoiding the tax by visiting a neighboring jurisdiction with a lower tax rate or no tax at all. In Hawaii, the border problem is less of an obstacle to county reliance on consumption taxes than it is for local governments on the mainland, where shopping in a lower-tax jurisdiction may be a 10-minute drive rather than a $100 round-trip flight.

Income taxes are generally viewed as appropriate only for the federal government and the states because of the high potential mobility of the base. Most local income taxes are limited to "earned" income earned in the jurisdiction. Administrative costs are also an important consideration in the assignment of revenue-raising authority. Although they differ significantly for some taxes, the advent of the microcomputer has significantly reduced the differences.

POLICY OPTIONS

The structure of Hawaii's society and economy is changing, and a powerful rationale is developing for structuring decision making and the financing and delivery of public services on a decentralized basis. Excessive centralization of government in Hawaii will lead to an inefficient allocation of resources, less responsive government, and a loss of accountability.

Based upon information provided by the public sector and private sector, input at public hearings, national trends, and the results of a consultant study conducted on the Commission's behalf (See ACIR study in Volume 2), the Commission's conclusion is that the counties should have additional taxing authority. The property tax is an essential foundation of a local tax system and should be utilized to best advantage, but the counties need to have more flexible revenue structures if they are to maintain the services that residents expect and demand. The revenue diversification that marks the strength of the State tax system is singularly lacking in the county tax system.

An effort was made to consider virtually every proposal for county financing advanced during the past few years. Among the categories of policy options considered were: shifts in revenue-raising authority between the State and the counties, county supplements to State taxes, new taxing authority for the counties, State payments to the counties, revised treatment of purchases by the counties under the general excise tax, and increased reliance by the counties on user fees and charges.

Five sources of State revenues have been identified in recent discussion as possible candidates for transfer to the counties: the alcohol and tobacco taxes, the transient accommodations tax, the State fuel tax for highway use, and the proceeds from fines and forfeitures levied pursuant to county laws.

An alternative to a transfer is a county supplement to a State tax. A county supplement is a specified increment to a State tax rate, enacted at the option of the county. The policy options considered were county supplements to the general excise tax, to the transient accommodations tax, and to the individual income tax.

A variation is a tax sharing rather than a tax supplement. The distinction is that a county supplement would be imposed by the county as an add on to an existing State tax--"piggybacking"--and collected by the State along with the State tax. A tax sharing, on the other hand, is merely an allocation of part of a State tax. (See Volume 2 for the analysis of options not shown here.)

Shifts in Revenue Raising Authority Authorizing (but not requiring) the counties to levy a new tax--or a tax formerly used by the State--is consistent with the principle of accountability that the government that spends public funds should be responsible for raising them.

The taxing authority must present a genuine option to the counties in order to promote accountability. If a county has no choice in the matter, the tax is really a State tax, and the proceeds that are "shared" with the counties are really a grant-in-aid. Clearly, a grant paid by the State to the counties diminishes accountability because the counties would be spending funds raised by the State government.

An additional consideration is that a grant may be a less reliable source of revenue for the counties in the long run. Authority to levy a tax, experience throughout the nation seems to suggest, is less likely to be revoked than a grant is to be reduced or eliminated--as was the federal Revenue Sharing Program in 1986, for example. At the same time, the revenues from taxes may be somewhat less predictable from year to year than those from a State grant program.

Another rationale for shifting revenue-raising authority would be to achieve a better alignment of sources and service responsibilities, where the services provided pursuant to those responsibilities lend themselves to being financed by charges or taxes conforming with the benefit principle.

1. Transfer of alcohol and/or tobacco excises from the State to the counties A proposal purporting to transfer the State's excise taxes on alcohol and tobacco to the counties is contained in House Bill 1858, introduced during the 1989 session of the legislature and still under consideration for the 1990 session. In fact, however, the proposal does not contemplate a true transfer of these taxes to the counties, as a transfer of taxing authority is defined and understood.

The proposal was termed, and has been discussed as, a "complete" transfer of the liquor and tobacco taxes to the counties. Among its restrictions, however, are provisions of House Bill 1858 that tell the counties how to increase or decrease the tax rates, how to share the tax collections, and how to spend the money.

Even if the proposal were changed to allow a true transfer of taxing authority, there is no evident reason why the liquor and tobacco taxes are likely candidates for transfer from the State to the counties. There is no indication that either equity or efficiency would be improved as a result of a transfer.

It isn't evident what social policies the counties might have better control over as a result of such a transfer. If, for example, one county wished to discourage smoking and increased taxes to a prohibitive level, people could easily buy cigarettes in another county. If all the counties raised taxes to prohibitive levels, a black market would develop.

It is also not evident why the counties would be better off by having the State grant them the more regressive and inelastic taxes of the Hawaii tax system, and there are no discernable policy considerations that could make these taxes preferable to other, more suitable taxes as a source of revenues for the counties.

Finally, there is no clear connection between those taxes and the distribution of the benefits of public services for which the counties are responsible. In fact, there is a stronger case for retaining the liquor and tobacco taxes at the State level because it is the State that has responsibility for the health and welfare functions that are associated with the costs to society from the use of liquor and tobacco products.

2. Transfer of taxing authority for the transient accommodations tax from the State to the counties The primary case for transferring the TAT to the counties rests on the proposition that the incidence of the tax is, more than any other revenue source in Hawaii's fiscal system, on the visitor. This suggests that, if the benefit principle is to be accorded high priority in tax policy-making, the TAT is especially well suited as a source of revenue to finance public services from which visitors benefit significantly. The key question, then, is what are those services, and are they predominantly provided by the State or by the counties?

The analysis of the budgets of the State and the counties in Chapter V of the ACIR report indicates that approximately 53 percent of all public outlays for services from which visitors to Hawaii directly benefit are made by the counties. (These services are summarized in Table VIII.1 of the report.) Beyond observing that no services of significant budgetary consequence benefit visitors exclusively, it is not possible to estimate what proportions of the benefits from these services are enjoyed by visitors. However, the functions shown in Table VIII.1 account for 64 percent of all county expenditures.

By comparison, the major services for which the State government is responsible provide nearly all their benefits to residents of the State. The most important of these services are elementary, secondary, and higher education, public welfare, hospitals, and urban redevelopment and housing. Services directly benefiting visitors are responsible for less than 14 percent of State expenditures.

An additional factor to be weighed in considering transfer of the TAT to the counties is its close relationship to the real property tax, the cornerstone of the county revenue system. In an important sense, the TAT is a substitute for a property tax targeted to hotels and other transient accommodations. Further, the information generated by the process of compliance with the TAT should be of substantial value in estimating the market value of such properties. This being the case, it might well make sense to vest responsibility for both taxes in the counties.

Moreover, the TAT, like the property tax, is peculiarly suited to use and administration by a county because the taxed transaction takes place within the physical boundaries of the government. Then too, the room rate typically comprehends a substantial element of economic (location) rent, which is uniquely amenable to taxation by local authorities. In other words, there is little risk, at remotely competitive tax rates, of migration of the tax base to other jurisdictions.

Finally, county control of the property tax and the TAT would allow each county to choose its own balance between hotel development and residential development and its relative reliance on the associated taxes. To the extent that a county chooses to develop hotel properties, it can rely on TAT collections; to the extent that a county chooses to preserve its residential character, it should rely on the property tax.

3. Exemption of transient accommodations from the general excise tax coupled with a transfer of taxing authority for the TAT to the counties, with an authorization to set a rate of up to some maximum level The Hawaii State tax on transient accommodations is 9.4 percent, which is within an average range for room taxes in the largest cities on the mainland. In Hawaii the tax consists of two taxes: the GET and the TAT. This proposal is related to the recommendation to exempt residential rentals from the GET and would provide a simpler, more rational basis for taxing accommodations under a single tax. The major issue is whether the State would give up the revenues.

The recommendation to exempt residential property from the GET is intended to equalize the tax treatment of renters and home owners. That rationale does not extend to short term rentals, and the proposed exemption is not intended to apply to transient accommodations because of the policy objective to export taxes.

The question then becomes a matter of defining what is or is not a residential rental. The TAT already provides guidelines for determining what transient accommodations are. Rather than having inconsistent definitions and an overlapping between the GET and the TAT, it would be simpler to exempt all lodgings, whether residential or transient, short-term or long-term, and then tax transient accommodations under a single tax. Since the TAT has already been suggested as being suitable for county control--it is more often a local tax elsewhere--the unified taxation of transient accommodations could properly rest with the counties.

A transfer of taxing power should include the ability to impose any rate that a county might choose; a cap could be set on the rate if there were some matter of Statewide concern that warranted imposing a limit on the extent to which rates might be raised.

Tax Sharing A tax sharing arrangement is an alternative to a shift in revenue raising authority. A tax sharing means that the counties would receive a portion of an existing State tax. Shared taxes are essentially grant-in-aid programs funded by earmarking a part of a particular State tax and thus are unattractive for the same reasons as a grant-in-aid: they diminish accountability, and they are more likely to be revoked than would a grant of taxing authority.

Despite the drawback of shared taxes, a candidate for tax sharing is the Public Service Company (PSC) Tax because of a possible overlap in jurisdiction. The PSC tax is a State tax on the gross income of public utilities, common carriers by water, motor carriers, and contract carriers. The tax rate for public utilities ranges from 5.885% to 8.2%; the rate applied to the others is 4%. Annual collections of the PSC tax are about $60 million, of which $50 million is from public utilities and the balance from the carriers.

The PSC law specifies that the tax is a means of taxing the property of public utilities. With the counties now having complete control of the property tax, there is a potential overlap in jurisdiction between the State PSC and the county property tax. From the standpoint of good tax policy, it's questionable whether a separate tax such as the PSC should be retained instead of subjecting PSC's to the same taxes as other businesses, namely the general excise tax and the property tax. Because the PSC is based on gross income, it does have the advantage of simplicity, unlike property taxation of utilities, which requires assessments of property values that may be difficult to obtain.

It is in the counties' interest to broaden their tax base, and public utility property represents a potential addition to the base. If the State is unwilling to repeal the PSC tax and subject public utilities to the general excise tax, there is a possible conflict between the interests of the State and the interests of the counties that could be resolved by a sharing of the PSC tax.

County Supplements Unlike a shared tax, which remains entirely a State tax, a county supplement is a tax levied by the counties as an addition to an existing State tax (a "piggybacking" onto a State tax). The county supplement is collected along with the State tax and remitted by the State to the counties. The most frequently mentioned candidate for a county supplement is the general excise tax. As a county supplement to a State tax is really a State-administered local tax, any proposal for a supplement must be considered with a view toward the appropriateness of the tax as a source of local revenue. On balance, it would seem that the GET would not be an appropriate tax for the counties.

One consideration is the complexity of identifying the source of GET collections. There have been a number of proposals to require the identification of the source of income by county, but it still is not certain how much of an additional compliance and administrative burden would result from such a requirement. In addition, as a State administered tax, it is uncertain how much of an incentive the State would have to monitor the reporting since its share of the tax would be based on total collections without regard to source.

Another consideration with the GET as a source of county revenue is that its apparent incidence among individuals bears little relation to the distribution of the benefits of public services for which the counties are responsible. The evidence suggests that the incidence of the tax is regressive, whereas it is likely that the distribution of the benefits of services for which the counties are responsible is more or less proportional to income or to the value of residential property. If this is the case, the GET is not well suited as a means for the counties to finance, in accordance with the benefit principle, their service responsibilities that cannot be funded by fees and charges.

A final consideration is that a county supplement, like a shared tax, tends to cloud accountability. If there is an issue of possible Statewide concern, such as with proposals for mass transit systems, there is no reason for preferring a county supplement to the GET over categorical State grants as a means of financing such projects.

Existing Revenue Authority As of November 1989, the counties have full control of the property tax. By many measures the property tax in Hawaii is below national averages, but peculiarities of the State/county relationship in Hawaii make comparisons less helpful. The issue of additional revenue authority for Hawaii's counties is one of efficiency and revenue flexibility and should not be obscured by whether Hawaii's property tax is or is not in line with national averages.

Nevertheless, the property tax is a cornerstone of local tax systems and should be recognized as such in Hawaii. The policy of county officials should be the same as that of State officials with respect to the tax system: the base should be kept broad and the rates low. The tendency to provide tax relief and erode the tax base through exemptions should be avoided, as should the inclination to adopt policies that result in less than 100 percent assessment of property. The counties should guard against the proliferation in the number of tax classifications.

In addition to property taxes, the counties have control over user fees and benefit charges for county services. Fees and charges should generally be a preferred means of financing county services because they more nearly reflect the benefit principle. By some measures, the degree to which counties in Hawaii rely on user charges is substantially less the averages nationwide and for the western states. The counties should make best use of such fees and charges.

Finally, a major concern of the counties is the cost of development. Many of the arguments put forward in support of requests for money by the counties center around infrastructure costs. An analysis of the counties' use of development fees and exactions suggests that these sources of revenues, which should cover much of the infrastructure costs imposed by development, are not being properly utilized.

It appears that development fees and exactions have been applied on an ad hoc basis that has tended to focus on high-visibility projects while neglecting other developments. Overall there has probably been an underestimation of the costs imposed by development. A more consistent and uniform application of fees and exactions, with a more realistic assessment of additional costs, should be considered.

Taxes on Hotel Rooms – An Informal Survey of Various Cities

March 27, 2015

In its report to the 2010-2013 Tax Review Commission, the PFM Group calculated total taxes on hotel rooms in cities that the U.S. Census Bureau identified as the top ten travel destinations. Some of the destinations get mostly business travel, but some (Las Vegas and Orlando) are tourist destinations. The taxes include hotel room taxes and sales (or excise) taxes.

City	Taxes
Honolulu	13.96%
Boston	14.45%
Chicago	16.39%
Las Vegas	12.00%
Los Angeles	15.57%
Miami	13.00%
New York City	14.75% + $3.50 per night
Orlando	12.50%
San Francisco	15.57%
Washington, D.C.	14.5%

The average tax rate on hotel rooms in the top ten destinations (excluding Honolulu and New York City's fixed fee of $3.50 per night) was 14.3%.

The following data showing the breakdown of the taxes for these cities and for a few others were compiled in early 2014. In some places, changes to the hotel taxes were being considered when the data were collected. The data should be considered as preliminary, because they have not been extensively edited for completeness or for accuracy.

Anaheim, California
City tax on hotel rooms: 15%, plus 2% for properties in the Anaheim Resort and the Platinum Triangle
Total taxes on hotel rooms: 15% to 17%

Los Angeles, California
City tax on hotel rooms: 14% plus 1.5% fee on hotels with 50 or more rooms
Total taxes on hotel rooms: 14% to 15.5%
San Diego, California
City taxes on hotel rooms: 10.5%, plus 2% Tourism Marketing District imposed on lodging businesses with 70 or more rooms
Total taxes on hotel rooms: 10.5% to 12.5%

San Francisco, California
City tax on hotel rooms: 14%, plus Tourism Improvement District levies of 1% to 1.5%
Total taxes on hotel rooms: 15% to 15.5%

Miami, Florida
City sales tax: 1%
County taxes on hotel rooms:
- Convention Development Tax: 3%
- Tourist Development Tax: 2%
- Professional Sports Facilities Franchise Tax: 1%

State sales tax: 6%
Total taxes on hotel rooms: 13%

Orlando, Florida
City sales tax: 0.5%
County taxes on hotel rooms:
- Convention Development Tax: 3%
- Tourist Development Tax: 2%
- Professional Sports Facilities Franchise Tax: 1%

State sales tax: 6%
Total taxes on hotel rooms: 12.5%

Chicago, Illinois
City taxes on hotel rooms:
- Municipal: 1.08%
- Home Rule: 4.5%
- Metropolitan Pier and Exposition: 2.5%
- Sports Facility: 2.14%

State tax on hotel rooms: 6.17%
Total taxes on hotel rooms: 16.39%

Boston, Massachusetts
City taxes on hotel rooms: 6%, plus 2.75% Convention Center Tax
State tax on hotel rooms: 5.7%
Total taxes on hotel rooms: 14.45%

Las Vegas, Nevada
City taxes on hotel rooms: 12%, plus 1% tax on hotels near the "Fremont Street Experience"
Total taxes on hotel rooms: 12% to 13%

New York, New York
City sales tax: 4.5%
Surcharge for the Metropolitan Commuter District): 0.375%
State tax on hotel rooms: 5.875% + $3.50 per night
State sales tax: 4%
Total taxes on hotel rooms: 14.75% + $3.50 per night

Portland, Oregon
City tax on hotel rooms: 6%, plus 2% Portland Tourism Improvement District fee for facilities with 50 or more rooms
County tax on hotel rooms: 5.5%
Total taxes on hotel rooms: 11.5% to 13.5%

Austin, Texas
City tax on hotel rooms: 9%
State tax on hotel rooms: 6%
Total taxes on hotel rooms: 15%

San Antonio, Texas
City tax on hotel rooms: 9%
County tax on hotel rooms: 1.75%
State tax on hotel rooms: 6%
Total taxes on hotel rooms: 16.75%

Washington, D.C.
City tax on hotel rooms: 14.5%
Total taxes on hotel rooms: 14.5%

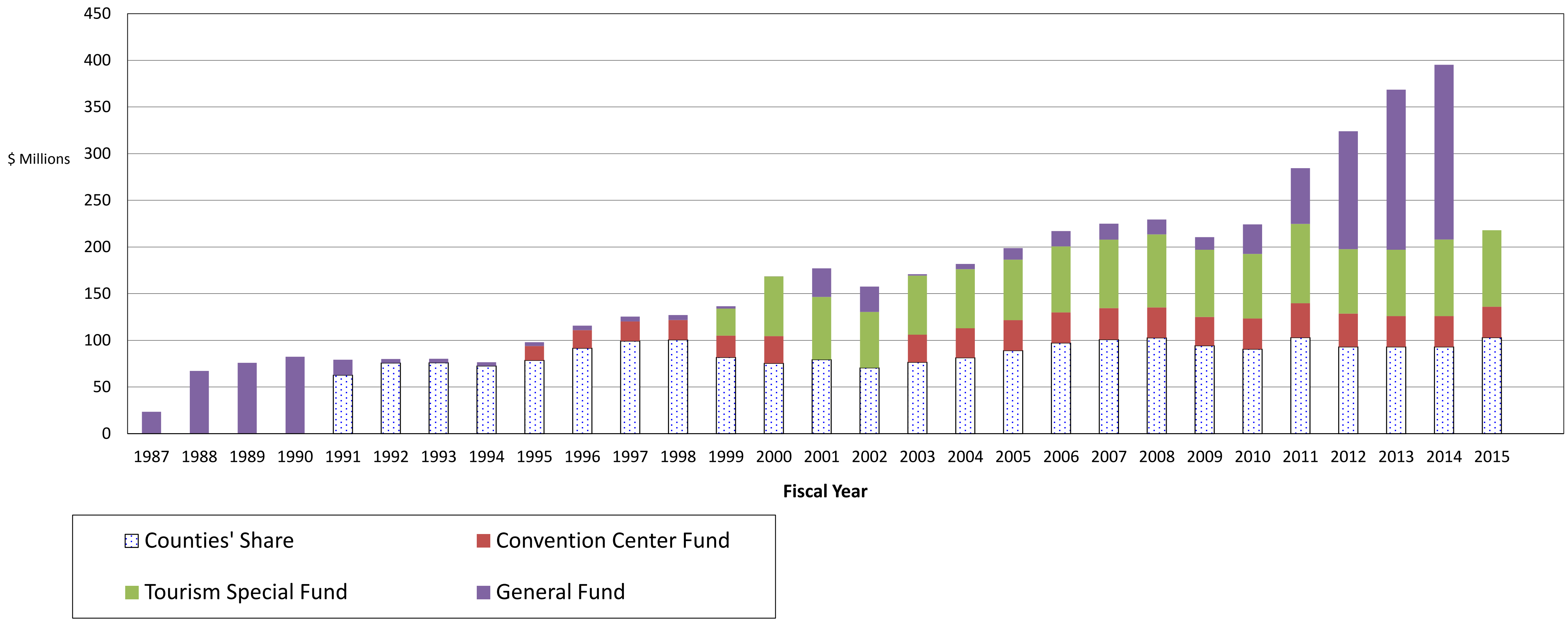
Here is a summary of the expanded and updated list:

Destination	Total Tax	City Share	County Share	State Share
Anaheim, CA	17.00%	100%	0%	0%
Los Angeles, CA	15.50%	100%	0%	0%
San Diego, CA	12.50%	100%	0%	0%
San Francisco, CA	15.50%	100%	0%	0%
Miami, FL	13.00%	8%	54%	46%
Orlando, FL	12.50%	4%	48%	48%
Chicago, IL	16.39%	62%	0%	38%
Boston, MA	14.45%	61%	0%	39%
Las Vegas, NV	13.00%	100%	0%	0%
New York, NY*	14.75%	33%	0%	67%
Portland, OR**	13.50%	59%	41%	0%
Austin, TX	15.00%	60%	0%	40%
San Antonio, TX	16.75%	54%	10%	36%
Washington DC	14.50%	100%	0%	0%
Unweighted Ave.	14.60%	67%	11%	22%

* Plus $3.50 per night (not included in the calculated percentages).

** For facilities with 50 or more rooms.

Transient Accommodations Tax Collections and Distribution



TAT Distribution (in $ Millions)

Fiscal Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Counties	0.0	0.0	0.0	0.0	62.8	75.8	76.1	72.6	78.6	91.6	99.3	100.6	81.7	75.4
Conv. Center	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.3	19.3	20.9	21.2	23.2	29.2
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.0	63.9
General Fund	23.5	67.3	76.0	82.5	16.5	4.2	4.2	3.9	4.1	4.8	5.2	5.3	2.5	0.2
TAT Total	23.5	67.3	76.0	82.5	79.2	80.0	80.3	76.5	98.0	115.7	125.5	127.1	136.6	168.6
Percentage TAT Distributions														
Counties	0.0%	0.0%	0.0%	0.0%	79.2%	94.7%	94.8%	94.9%	80.1%	79.2%	79.2%	79.2%	59.9%	44.7%
Conv. Center	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.7%	16.7%	16.7%	16.7%	17.0%	17.3%
Tourism	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	21.3%	37.9%
General Fund	100%	100%	100%	100%	20.8%	5.3%	5.2%	5.1%	4.2%	4.2%	4.2%	4.2%	1.8%	0.1%

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Counties	79.4	70.6	76.5	81.5	89.1	97.2	100.8	102.8	94.4	90.6	102.9	93.0	93.0	93.0	103.0
Conv. Center	0.0	0.0	29.6	31.5	32.5	32.7	33.8	32.5	30.7	32.8	36.8	35.6	33.0	33.0	33.0
Tourism	67.1	59.7	63.3	63.3	64.8	70.7	73.3	78.2	72.0	69.1	85.0	69.0	71.0	82.0	82.0
General Fund	30.7	27.3	1.5	5.6	12.4	16.4	17.1	15.9	13.6	31.7	59.8	126.3	171.6	187.2	na
TAT Total	177.2	157.6	170.9	181.9	198.8	217.0	224.9	229.4	210.6	224.3	284.5	323.9	368.6	395.2	na
Percentage TAT Distributions															
Counties	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%	44.8%	40.4%	36.2%	28.7%	25.2%	23.5%	na
Conv. Center	0.0%	0.0%	17.3%	17.3%	16.4%	15.1%	15.0%	14.1%	14.6%	14.6%	12.9%	11.0%	9.0%	8.4%	na
Tourism	37.9%	37.9%	37.0%	34.8%	32.6%	32.6%	32.6%	34.1%	34.2%	30.8%	29.9%	21.3%	19.3%	20.7%	na
General Fund	17.3%	17.3%	0.9%	3.1%	6.2%	7.6%	7.6%	7.0%	6.4%	14.1%	21.0%	39.0%	46.6%	47.4%	na

A Brief History of the Transient Accommodations Tax (TAT) Allocations

The TAT was established by Act 340, SLH 1986. The rate was set at 5%. From January 1987 through June 1990, the TAT collections were General Fund realizations. Act 185, SLH 1990 changed the allocation of the TAT collections beginning July 1990, so that 5% went to the General Fund and the remainder went to the counties, with shares distributed as follows:[1]

Oahu	44.1%
Maui	22.8%
Hawaii	18.6%
Kauai	14.5%

The Conference Committee Report to bill that introduced the county allocations (and became Act 185) contained the following statements to justify the change:

> "Your Committee agrees that a more equitable method of sharing state revenues with the counties must be provided. A stable and continuing source of revenue will enable the counties to provide for their needs. Currently, the counties must come before the legislature each year to request financial assistance. This process discourages long-range planning.
>
> During this legislative session, both houses considered several proposals to determine the most equitable means of sharing state revenues with the counties. Among the proposals that were considered were the transfer of revenues collected from the transient accommodations tax, a portion of the public service company tax, animal fines, and unadjudicated traffic and parking fines and forfeitures to the counties.
>
> Your Committee finds that the administrative costs and burdens of distributing revenues from several smaller sources will be considerably greater than the costs of distributing from one large source.
>
> Your Committee also notes that tourism is the largest industry in Hawaii, and many of the burdens imposed by tourism falls on the counties. Increased pressures of the visitor industry mean greater demands on county services. Many of the costs of providing, maintaining, and upgrading police and fire protection, parks, beaches, water, roads, sewage systems, and other tourism related infrastructure are being borne by the counties.

[1] The shares of the individual counties in the total TAT allocations have remained the same ever since.

Your Committee finds that sharing TAT revenues with the counties by distributing the revenues among the counties in proportion to the population of each county would best accomplish the intent of this measure in an equitable manner. Your committee further finds that this method will provide the counties with a predictable, flexible, and permanent source of revenues.

Since your Committee intends this measure to be an equitable plan to distribute funds, your Committee notes that the Legislature may re-examine this TAT sharing mechanism if the county uses its present real property taxing powers to selectively impose a heavier burden on one industry over other industries who are currently paying the nonresidential real property tax rate.

The distribution of the TAT revenues to the counties does not mean that the Legislature has lessened its state support and commitment to the tourism industry. On the contrary, your Committee finds that because of tourism, Hawaii now enjoys economic prosperity. Your Committee further finds that past state support for tourism marketing and promotions programs have resulted in making tourism Hawaii's largest industry. It is the intent of your Committee to continue its financing of the Convention Center Authority and future funding for statewide tourism marketing and promotion to ensure the continued vitality of the tourism industry of Hawaii." [2]

The final county shares were not based on county population, however.[3] Instead, they appear to have been based on visitor statistics. The tabulation below shows the share of TAT collected by establishments located in each county. The county break-downs in the tabulation differ from those provided in the Department's monthly collections reports, which show TAT collections by address of the taxpayer. Since many of the companies offering transient accommodations in more than one county are headquartered on Oahu, the data in the monthly collections reports show Oahu with a larger-than-warranted share of the total TAT collections.

County Shares of TAT Collections*

Calendar year	Oahu	Maui	Hawaii	Kauai
2013	48.7%	29.4%	12.1%	9.8%
2012	47.5%	30.4%	12.7%	9.5%
2011	46.5%	31.4%	12.5%	9.6%

* Preliminary calculations

[2] See Conference Committee Report 207 on HB 1148, SLH 1990.
[3] An allocation by population would have given Oahu 75% of the total in 1990.

Act 7, SSLH 1993, allocated one-sixth of TAT collections to the convention Center, starting July 1994. Of the remaining TAT collections, 5% went to the General Fund and the remainder went to the counties. Act 156, SLH 1998 allocated 37.9% of the TAT collections to the Tourism Special Fund and increased the allocation to the Convention Center from one-sixth to 17.3%. The amount allocated to the counties was set at 44.8%. The allocations made under Act 156 began in January 1999. Allocations to the Convention Center were allowed to expire at the end of fiscal year (FY) 2000. In FY 2001 and 2002 the Convention Center's share was instead deposited to the General Fund.

Act 250, SLH 2002 reduced the allocation to the Tourism Special Fund from 37.9% to 32.6% beginning July 2002. Act 253, SLH 2002 capped the allocation to the Convention Center at $31 million per year, starting in January 2002, with the excess amount of the Convention Center's share of 17.3% of TAT collections over the cap going to the General Fund.

From 2005 to 2008, various changes were made to TAT allocations, but the counties' share remained fixed at 44.8% of total TAT collections.

Act 61, SLH 2009 increased the TAT rate from 7.25% to 8.25% for FY 2010, and from 8.25% to 9.25% after June 2010, with the increased collections dedicated to the General Fund. The share of the counties in the collections from the base tax rate of 7.25% was not changed. The reason for the increases was to replace budget shortfalls caused by the Great Recession.

Act 103, SLH 2011 capped the amount of the TAT allocated to the Tourism Special Fund at $69 million per year and capped the amount going to the counties at $93 million per year from July 2011 through June 2015. The purpose was again to address the State's budget shortfall.[4]

Act 268, SLH 2013 ordered that starting in FY 2018, if a county failed to pay in full the annual required contribution to its employees' health benefits trust fund, the shortfall would be made up directly from the county's share of the TAT allocations.

Act 174, SLH 2014 increased the cap on the counties' share of TAT allocations from $93 million to $103 million for FY's 2015 and 2016. The Act also established a working group to recommend the proper allocation of TAT collections to the counties.

[4] See Conference Committee Report No. 139 for Senate Bill 1186, April 29, 2011.