Agenda item V.a.

County	City & County of Honolulu		Maui County		Hawai'i County		Kaua'i County		All Counties	
Visitor/Resident Ratio[1]	8.90%		25.28%		13.29%		25.13%		12.63%	
Fiscal Year 2014 CAFR Expenditures[2]	Total	Visitor	Total	Visitor	Total	Visitor	Total	Visitor	Total	Visitor
General Government	$ 163,119,879	$ 2,575,527	$ 133,581,887	$ 7,915,368	$ 94,373,908	$ 3,047,700	$ 26,961,793	$ 1,886,702	$ 418,037,467	$ 15,425,296
Public Safety	$ 377,562,837	$ 32,982,889	$ 76,017,979	$ 17,758,704	$ 112,557,963	$ 13,909,178	$ 51,116,072	$ 12,845,469	$ 617,254,851	$ 77,496,240
Public Works	$ -	$ -	$ -	$ -	$ 14,923,864	$ 320,818	$ 10,164,073	$ 380,325	$ 25,087,937	$ 701,142
Highway & Streets	$ 23,187,649	$ 2,063,701	$ 38,032,558	$ 8,073,843	$ 11,172,610	$ 1,484,840	$ 12,444,155	$ 3,127,216	$ 84,836,972	$ 14,749,600
Sanitation	$ 1,695,188	$ 150,872	$ 44,038,930	$ 11,133,042	$ 29,472,831	$ 3,916,939	$ 22,292,837	$ 5,602,190	$ 97,499,786	$ 20,803,043
Human Services	$ 3,061,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,061,400	$ -
Culture & Recreation	$ 85,560,849	$ 7,243,949	$ 29,299,967	$ 7,056,693	$ 18,440,874	$ 2,329,704	$ 13,597,972	$ 3,228,355	$ 146,899,662	$ 19,858,701
Public Welfare	$ -	$ -	$ 16,675,041	$ -	$ 32,580,804	$ 1,239,515	$ 10,073,356	$ 1,610,852	$ 59,329,201	$ 2,850,367
Utilities/Transporation	$ 1,775,465	$ 158,016	$ -	$ -			$ -	$ -	$ 1,775,465	$ 158,016
Debt Service	$ 301,893,987	$ 13,434,282	$ -	$ -	$ 39,638,084	$ 2,633,951	$ 9,494,226	$ 1,192,949	$ 351,026,297	$ 17,261,182
Miscellaneous	$ 556,531,854	$ 13,434,851	$ -	$ -	$ -	$ -	$ -	$ -	$ 556,531,854	$ 13,434,851
Net Transfer	$ -	$ -	$ -	$ -	$ 3,704,704	$ 246,178	$ 1,625,327	$ 202,350	$ 5,330,031	$ 448,528
Capital Outlay	$ -	$ -	$ -	$ -	$ 29,698,937	$ 1,759,846	$ -	$ -	$ 29,698,937	$ 1,759,846
Proprietary Funds	$ 490,185,313	$ 43,626,493	$ -	$ -	$ -	$ -	$ -	$ -	$ 490,185,313	$ 43,626,493
Total Operating Expenses	$ 2,004,574,421	$ 115,670,580	$ 337,646,362	$ 51,937,649	$ 386,564,579	$ 30,888,669	$ 157,769,811	$ 30,076,408	$ 2,886,555,173	$ 228,573,305

	City & County of Honolulu	Maui County	Hawai'i County	Kaua'i County	All Counties
County Expenditures on Visitors to Total Operating Expenditures	5.77%	15.38%	7.99%	19.06%	7.92%
Individual County Expenditures to the Aggregate Expenditures of All Counties	69.45%	11.70%	13.39%	5.47%	100.00%
Individual County Expenditures on Visitors to the Aggregate Expenditures on Visitors for All Counties	50.61%	22.72%	13.51%	13.16%	100.00%
% of Total County TAT Allocation	44.10%	22.80%	18.60%	14.50%	100.00%
% of Total TAT after Debt Service & HTA	19.76%	10.21%	8.33%	6.50%	44.80%

Data Sources:

1. HTA 2013 data, refer to "slide 2" of document submit by Ed Case. Converts total visitor days to a de facto resident by dividing by 365 days.
   City & County of Honolulu = 35,059,623 visitor days/365 = **96,054 visitors**
   Maui County = 19,795,040 visitor days/365 = **54,233 visitors**
   Hawai'i County = 10,678,171 visitor days/365 = **29,255 visitors**
   Kaua'i County = 8,516,938 visitor days/365 = **23,334 visitors**

   DBEDT data for July 1, 2013
   City & County of Honolulu = **983,429 residents**
   Maui County = **160,292 residents**
   Hawai'i County = **190,821 residents**
   Kaua'i County = **69,512 residents**

2. Expenditures represent the total operating expenses reported in each county's respective FY14 CAFR. The allocation to visitor spending was done at the line item level whereas the expenses allocated to the visitors above represent the summary by general expense category. At the individual line item level, the degree of nexus was estimated a "high", "moderate", "low", or "none" with factors of 1.00, 0.50, 0.25, and 0.00 being respectively applied. For example, for Maui County an expenditure that has a "low" visior nexus uses the allocation of 25.28% multiplied by 0.25, which allocates 6.32% of that total expenditure to the impact of the visitor.

Agenda item V. b.

State Duties and Responsibilities Investigative Group
Report on Visitor Allocated CAFR Expenses
May 2015

The State Duties and Responsibilities Investigative Group (the Investigative Group) comprised of four (4) State representatives, one county investigative group member, and one member from the tourism investigative group met on two occasions to perform the following:

1. Identify CAFR expenses which had a relationship to tourism, either direct or indirect. Those with an indirect relationship were functions which provided crucial support services to those functions that were directly related to tourism.

2. Determine the level of visitor nexus for each defined function, "Low", "Mod", "High". For allocation purposes, the defined level of visitor nexus was given a percentage allocation of a CAFR expenditure. The allocation percentages were as follows: "Low" received 25% allocation, "Mod" received 50% allocation, and "High" received 100% allocation. The percentages are identical to that used by the counties.

To calculate the "Visitor Allocation" of the CAFR Expenditure (the Expenditure), the Expenditure was multiplied times the appropriate nexus allocation percentage and times the ratio of visitors to residents ratio. The ratio of visitors to residents was based on the visitor and resident population estimates for fiscal year ended June 30, 2014 from the Hawaii Tourism Authority and Department of Business Economic Development and Tourism, respectively (utilizing the same computational method used by the counties). This methodology to calculate the "Visitor Allocation" is identical to that used by the counties. A spreadsheet which outlines these details is attached

The result of the allocations made were as follows:
1. Total Visitor Allocated CAFR expenses: $453.2 million
2. State Expenditures on Visitors to Total Operating Expenditures: 4.4%

Agenda item V. b.

TAT WORKING GROUP
STATE INVESTIGATIVE COMMITTEE
REVIEW AND ANALYSIS OF 2014 CAFR EXPENSES
May 2015
(Dollars in thousands)

Expenses	Amount	Directly Related to Tourism	Indirectly related to tourism but essential support to line agencies	Visitor Nexus (1)	Vistor Allocation (2)	Visitor Nexus Percentage	Tourist ratio to Resident
General Government	$ 567,941		X	Low	$ 17,933	25%	12.63%
Public Safety	$ 533,727	X		Mod	$ 33,705	50%	12.63%
Highways	$ 554,039	X		High	$ 69,975	100%	12.63%
Conservation of natural resources	$ 101,587	X		High	$ 12,830	100%	12.63%
Health	$ 849,493		X	Low	$ 26,823	25%	12.63%
Welfare	$ 2,879,813		X	Low	$ 90,930	25%	12.63%
Lower Education	$ 2,685,037		X	Low	$ 84,780	25%	12.63%
Higher Education	$ 693,292		X	Low	$ 21,891	25%	12.63%
Other Education	$ 21,766		X	Low	$ 687	25%	12.63%
Culture and recreation	$ 104,303	X		High	$ 13,173	100%	12.63%
Urban redevelopment and housing	$ 137,160		X	Low	$ 4,331	25%	12.63%
Economic development and assistance	$ 166,455	X		High	$ 21,023	100%	12.63%
Interest expense	$ 239,760						
Airports	$ 346,699	X		High	$ 43,788	100%	12.63%
Harbors	$ 89,327	X		High	$ 11,282	100%	12.63%
Unemployment compensation	$ 244,947						
Nonmajor proprietary fund	$ 87,031						
	$ 10,302,377				$ 453,152		
State Expenditures on Visitors to Total Operating Expenditures					4.4%		

Note: (1) Vistor nexus relationships with percent allocation of CAFR expenditure; "High" received 100% of allocation, "Mod" received 50% of allocation, "Low" received 25% of allocation, "No" received no allocaiton

(2) Allocated expense based on ratio of visitors to full time residents times percent of nexus times CAFR expense

Agenda Item V.C.

April 17, 2015

To: State-County Functions Working Group

Fr: Visitor Industry Investigative Group Ed Case, Chair

Re: Visitor Industry Views on Visitor-Related Needs for State and County Services

The Visitor Industry Investigative Group was charged to "review and summarize visitor industry and other views on visitor-related needs for State and county services".

The scope of authority for each group member was to "discuss with and obtain information from visitor industry and other sources."

The methodology followed by the group was as follows:

(1) Each member reached out to his visitor industry and other contacts with a common and open-ended request to identify priority visitor-related needs for State and County services.

(2) The contact groups included but were not limited to: employees of Outrigger Enterprises at 31 properties on four islands; members and others on the mailing lists of the Hawaii Lodging & Tourism Association and the Waikiki Improvement Association; the Hawaii Tourism Association and other organizations focused on the tourist industry; and visitor industry retail and other partners.

(3) Each member reviewed the raw results and compared them against his own anecdotal information and overall view of the visitor industry.

(4) The members agreed upon an overall summary of the results organized generally by reference to the State and county CAGR expense categories.

Based on the above, the investigative group reports to the full working group as follows:

(a) In general, visitor industry and other views on visitor-related needs for State and county services break down into three categories of priorities: Priority 1 (direct needs viewed as most important across the board); Priority 2 (direct needs viewed as very important but not at the same priority as 1 and/or not universal); and Priority 3 (some or all of: direct needs not at the same priority as 1 and 2; direct needs targeted at more specific areas rather than universal; and indirect needs which are important to laying the foundation for addressing direct visitor needs).

(b) Priority 1 categories encompass Transportation and Parks and Recreation. Further:

(i) In Transportation, the priority area is to maintain and improve our airports, especially general conditions, signage, restrooms, and visitor assistance. Another priority area is to maintain and improve our highways and roads, both general conditions and specifics including directional signage, non-vehicular access, and litter and overall beautification. Also identified were assuring fair and accessible public transportation, and, mainly for our cruise visitors, improving our major harbors.

(ii) In Parks and Recreation, the priority area is to improve the general conditions of our state and county parks, especially beach parks but also substantially other state and county recreational areas such as trails. Related areas include lifeguards, restrooms, trash and beach erosion. An equal priority is park-specific public safety.

(c) Priority 2 categories encompass Public Safety and Housing. Further:

(i) In Public Safety, the priority area is increased police presence in destinations focused on or frequented by visitors. This is a particular Waikiki focus but is universal across all islands including not just parks but other visitor destinations.

(ii) In Housing, the priority area is homelessness. While this is a particular Waikiki focus as well, it is also a primary concern in non-Waikiki tourist destination areas statewide.

(d) Priority 3 categories encompass Culture, Education, Sanitation and IAUs (Individually Advertised Units). Further:

(i) In Culture, the general priority is preservation and enhancement through education of the diverse cultures of Hawaii that contribute to our unique visitor experience.

(ii) In Education, the general priority in addition to cultural preservation is visitor industry workforce training.

(iii) In Sanitation, the priority areas relate both specifically to visitor destinations including airports/roads and parks/recreation areas, but also general capacity to handle visitor as well as resident demand.

(iv) In IAUs, the priority areas are to eliminate illegal rentals and assure full compliance with visitor-specific requirements including TAT payment.

On two supplemental notes:

(1) While the investigative group views its charge as summarizing the priorities of the visitor industry for State and county services, the group recognizes that all other areas

of government contribute importantly in various ways, both directly or indirectly, to the fulfillment of visitor-related needs for such services.

(2) The group has not specifically addressed general tourism marketing and promotion of Hawaii as it regards that function as a given that is being carried out by the Hawaii Tourism Authority and related county services, but notes that the visitor industry continues to view that as a high priority visitor-related need for State and county services.

Mahalo for considering this report by the Visitor Industry Investigative Group. We look forward to discussing our report with the full group and to undertaking whatever further responsibilities the full group might direct.

Agenda item V.d.

May 29, 2015

Memorandum

TO:	Chair Acoba Members, State County Functions Working Group (TAT)
From:	Ray Soon Members of the Allocation Models Investigative Group
Re:	Report on our Progress to Date

Your investigative group met on Thursday, May 21st. Present were Sandy Baz, Mary Alice Evans, Ed Case and Ray Soon. We enjoyed a spirited and informative discussion. We centered our discussion around the following optional allocation models:

1. Allot the TAT funds according to the proportionate share of tourism expenses incurred by the Counties and the State

   The basic concept is to figure out the total public expenditures (operating) and the proportionate share of that total attributable to the State and to the Counties. We would then allocate all TAT by those percentages.

   The primary strengths of this approach are that it is simple and that it appears to be the logical extension of the instructions of the legislation setting up the TAT working group; so is, therefore, probably most acceptable. The primary weakness lies in the difficulty in estimating the expenditures in both the County and the State. The exercise that we just completed is characterized by gross estimates, which, if they are truly to determine the proportions, demand more precision than we can give them in the remaining time we have available.

2. Allot the TAT funds according to the historical intent of the TAT legislation passed over the years

   The basic concept is the revisit the Legislative intent from the TAT's beginnings. Where the intent is unclear, we would make assumptions. Using this approach, the model could look something like:

   A. Using 9.25% as the total TAT charge, take the first 5.0 percentage points each year and allocate 95% of it to the Counties and 5% to the State as originally legislated in Act 185 in 1990, the first year in which an allocation was envisioned.
   B. Take the next 2.5 percentage points each year and allocate it to the amortization of the Convention Center and to the HTA for expenses as it appears to be envisioned in subsequent legislation, notably Act 156 in 1998.
   C. Take the final 2.0 percentage points each year and allocate it to the State in its entirety as envisioned by Act 5 in 2009.

The primary strength of this approach is that it honors the evolutionary history of the tax. A significant weakness lies in the gaps in intent and in the reality that, intent changes over time. Another weakness is that the historical model is not responsive to the Legislative mandate for the working group.

3. Use the current allotments as a guide, and account for the political reality that the State Legislature will want to fund other uses out of the TAT.

   The basic approach is to lock in a set amount of funds for the Counties, the Convention Center, the HTA and the DLNR (each year add inflation). There would be an implied commitment that these allotments would never go down. Set aside an additional 2% to the State to cover the costs of collection, management and distribution. Take the remainder and leave it in the pot for the Legislature to appropriate according to the needs of the current time.

   The primary strengths of this approach is that it gives certainty to the Counties, the HTA and the DLNR and that it reflects the political reality that the Legislature will always want to use parts of the TAT for other expenses. The primary weakness is that during growth periods, the Counties would have to accept that they would be locked in to a set amount; no upside.

4. The final basic model we looked at was not to mess with allocation models, but simply to disperse to the Counties the authority to tax the visitors.

   The basic concept is to have the State and the County both tax the industry, much like both currently collect a fuel tax.

   The primary strengths of the approach are that it fosters a greater sense of "home rule" and that it removes the annual petitioning by the Counties to the Legislature. The primary weaknesses are that the industry will have five legislative bodies with which to deal on TAT matters and the tax can be applied inconsistently, leading to confusion.

Each of these models have multiple variations which can lead to different results. In addition, the group did not conclude from which pot the current non-County, non-State set asides should get their funds. The closest we came to agreement was that 1) HTA expenses benefitted all Counties and the State as a whole and therefore should be covered by everyone, 2) the Convention Center expenses did not directly benefit the Neighbor Islands and they should not be required to pay for it, and 3) the DLNR set asides were State expenses and should come from that pot.

RECOMMENDATION

After much discussion, the investigative group decided that they would prefer to make a recommendation to the full Working Group. This was not a required outcome when the group was formed, but we felt it was a natural culmination to our discussion. The recommended model is a hybrid of the models we discussed and its basic features would be:

1. Take the first $83 million and allocate it to the HTA for their purposes. This gives the industry some certainly that their taxes will go directly to a body over which they have some control.

2. Take 90% of the balance and allocate it 60% to the State and 40% to the Counties, but in either case, no less than $100 million. This would give the Counties the opportunity to enjoy any upside, with some certainty that the downside will be limited and certain. The funds for the Convention Center and for any Legislative set asides (e.g. those to DLNR) would come from the State pot.

3. Take the remaining funds and leave it for Legislative discretion, with the recommendation that it be spent on visitor related expenditures. This reflects the political reality the problems that cannot be anticipated arise and that the Legislature will go to the TAT to help solve those problems.

The primary weakness of this model lies in the allocation of 60-40 State and County. The split should probably be calculated from the expenditure data that the State and Counties are currently gathering. Our feeling was that it was fair, but it probably requires more discipline and precision to be defensible, and we would leave that calculation to the consultants.

The investigative group adjourned without the intention of meeting again, and instructed the discussion leader to prepare these notes for the broader body's consideration. We sincerely hope that this is just the start of a more in-depth conversation at the Working Group level.