Agenda item III c.

State-County Functions Working Group (Transient Accommodations Tax)

TAT Measures **dead/alive (as of June 25, 2015)**

Dead

HB 197	Relating to the Transient Accommodations Tax
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 716	Relating to Innovative Business Interactions
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 (Act 93, on 6/5/15)
HB 444	Relating to Beach Protection (Act 117, on 6/12/15)
HB 1214	Relating to the State-County Functions Working Group (Act 134, on 6/19/15)
SB 284	Relating to the Transient Accommodations Tax (Act 121, on 6/12/15)

Agenda item III c.

TRANSIENT ACCOMMODATIONS TAX (TAT) DISTRIBUTION
As of July 1, 2015

Transient accommodations tax revenues collected under Section 237D-6.5(b), HRS, shall be distributed in the following priority, with excess revenues to be deposited into the general fund:

(1) $1.5 million allocated to the Turtle Bay Conservation Easement Special Fund beginning July 1, 2015, for the reimbursement to the general fund of debt service on reimbursable GO bonds, until the bonds are fully amortized;

(2) $26.5 million allocated to the Convention Center Enterprise Special Fund;

(3) $82 million allocated to the Tourism Special Fund;

(A) Of $82 million allocated;

(i) $1 million allocated for the operation of a Hawaiian center and the museum of Hawaiian music and dance at the Hawai'i convention center; and
(ii) 0.5 percent of the $82 million shall be transferred to a sub-account in the Tourism Special Fund to provide funding for a safety and security budget; and

(B) Of the revenues remaining in the Tourism Special Fund, funds shall be deposited into the Tourism Emergency Trust Fund;

(4) Allocated to the counties:

$103 million for FY 2014-2015

$103 million for FY 2015-2016

$165,000 appropriated out of the $103 million for the State-County Functions Working Group for FY 2015-2016 ($15,000 for actual expenses; $150,000 to procure consultant services)

$93 million for each fiscal year thereafter

Beginning FY 2018-2019, a sum that represents the difference between a county public employer's annual required contribution for the EUTF and the amount of the county public employer's contributions into the EUTF shall be retained by the State director of finance and deposited to the credit of the county public employer's annual required contribution in each fiscal year, if the county fails to remit the total amount of the county's required annual contributions;

Allocated as follows:

Kaua'i County – 14.5 percent
Hawai'i County – 18.6 percent
City and County of Honolulu – 44.1 percent
Maui County – 22.8 percent

(5) Of the excess revenues:

$3 million allocated to the Special Land Development Fund to be expended in accordance with the HTA strategic plan for protection, preservation, maintenance, and enhancement of natural resources, including beaches, important to the visitor industry; planning, construction and repair of facilities; and operation and maintenance costs of public lands, including beaches, connected with enhancing the visitor experience.

Agenda item IV.

State-County Functions Working Group (SCFWG)
Significant Dates and Deadlines, 2015 - 2016

June		
6/1/2015	Mon	RFP 1 - Proposals due, none received
6/3/2015	Wed	SCFWG Meeting (decide on data, I.G., other work)
		RFP 2 posted
6/11/2015	Thurs	Holiday - Kamehameha Day
6/17/2015	Wed	RFP 2 - proposals due, 1 received
6/23/2015	Tues	File agenda
6/26/2015	Fri	Distribute handouts
		RFP 2 - Notice of Award

July		
7/1/2015	Wed	SCFWG Meeting
7/3/2015	Fri	Holiday - Independence Day
7/15/2015	Wed	RFP 2 - Notice to Proceed (consultant begins)
7/28/2015	Tues	File agenda
7/29/2015	Wed	Consultant submits monthly progress report, status update, preliminary allocation models
7/31/2015	Fri	Distribute handouts

August		
8/5/2015	Wed	SCFWG Meeting, Consultant presents preliminary allocation models
8/21/2015	Fri	Holiday - Admissions Day
8/25/2015	Tues	File agenda
8/26/2015	Wed	Consultant submits monthly progress report, status update
		Consultant submits allocation models, preliminary findings & recommendations
8/28/2015	Fri	Distribute handouts

September		
9/2/2015	Wed	SCFWG Meeting - Consultant presents allocation models, preliminary findings & recommendations
9/7/2015	Mon	Holiday - Labor Day
9/29/2015	Tues	File agenda
9/30/2015	Wed	Consultant submits monthly progress report, status update
		Consultant submits outline and preliminary report draft (Chapters 1 and 2)

October		
10/2/2015	Fri	Distribute handouts, including preliminary report draft (Chapters 1 and 2)
10/7/2015	Wed	SCFWG Meeting - WG discusses consultant's preliminary report draft
10/27/2015	Tues	File agenda
10/28/2015	Wed	Consultant submits monthly progress report, status update
		Consultant submits final report draft, including WG conclusions and recommendations
10/30/2015	Fri	Distribute handouts

November		
11/4/2015	Wed	SCFWG Meeting - WG approves final report draft, including WG conclusions and recommendations
11/11/2015	Wed	Holiday - Veterans Day
11/12/2015	Thurs	Consultant finalizes draft report with WG revisions approved at November 4, 2015 meeting - submits to Office of the Auditor
		Office of the Auditor shares report with LRB to prepare draft legislation
		Report production begins
11/24/2015	Tues	File agenda
11/25/2015	Wed	Consultant submits monthly progress report, status update
11/26/2015	Thurs	Holiday - Thanksgiving
11/27/2015	Fri	Distribute handouts

December		
12/2/2015	Wed	SCFWG Meeting
12/25/2015	Fri	Holiday - Christmas
12/29/2015	Tues	File agenda
12/30/2015	**Wed**	**DEADLINE - SCFWG FINAL REPORT due to Gov, Leg, county mayors**
		Consultant submits monthly progress report, status update (last)
		Consultant submits draft briefing slides, testimony
12/31/2015	Thurs	Distribute handouts

January 2016		
1/1/2016	Fri	Holiday - New Year's Day
1/6/2016	Wed	SCFWG Meeting
1/20/2016	Wed	2016 Legislative Session - Opening Day

Agenda item V. a.

County Visitor/Resident Ratio[1]	City & County of Honolulu 8.90%		Maui County 25.28%		Hawai'i County 13.29%		Kaua'i County 25.13%		All Counties 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	$ 190,717,773	$ 12,053,363.25	$ 94,373,908	$ 3,047,700	$ 26,961,793	$ 1,886,702	$ 475,173,353	$ 19,563,292
Public Safety	$ 377,562,837	$ 32,982,889	$ 78,980,769	$ 9,983,169.20	$ 112,557,963	$ 13,909,178	$ 51,116,072	$ 12,845,469	$ 620,217,641	$ 69,720,705
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	$ 44,877,690	$ 11,345,080.03	$ 11,172,610	$ 1,484,840	$ 12,444,155	$ 3,127,216	$ 91,682,104	$ 18,020,837
Sanitation	$ 1,695,188	$ 150,872	$ 46,344,163	$ 5,857,902.20	$ 29,472,831	$ 3,916,939	$ 22,292,837	$ 5,602,190	$ 99,805,019	$ 15,527,903
Human Services	$ 3,061,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,061,400	$ -
Culture & Recreation	$ 85,560,849	$ 7,243,949	$ 39,738,937	$ 10,046,003.27	$ 18,440,874	$ 2,329,704	$ 13,597,972	$ 3,228,355	$ 157,338,632	$ 22,848,011
Public Welfare	$ -	$ -	$ 45,297,893	$ 2,862,826.84	$ 32,580,804	$ 1,239,515	$ 10,073,356	$ 1,610,852	$ 87,952,053	$ 5,713,194
Utilities/Transporation	$ 1,775,465	$ 158,016	$ -	$ -			$ -	$ -	$ 1,775,465	$ 158,016
Debt Service	$ 301,893,987	$ 13,434,282	$ 34,017,171	$ 2,149,885.21	$ 39,638,084	$ 2,633,951	$ 9,494,226	$ 1,192,949	$ 385,043,468	$ 19,411,067
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	$ -	$ -	$ 77,097,363	$ 4,872,553.34	$ 29,698,937	$ 1,759,846	$ -	$ -	$ 106,796,300	$ 6,632,399
Proprietary Funds	$ 490,185,313	$ 43,626,493	$ -	$ -	$ -	$ -	$ -	$ -	$ 490,185,313	$ 43,626,493
Total Operating Expenses	$ 2,004,574,421	$ 115,670,580	$ 557,071,759	$ 59,170,783	$ 386,564,579	$ 30,888,669	$ 157,769,811	$ 30,076,408	$ 3,105,980,570	$ 235,806,440

	City & County of Honolulu	Maui County	Hawai'i County	Kaua'i County	All Counties
County Expenditures on Visitors to Total Operating Expenditures	5.77%	10.62%	7.99%	19.06%	7.59%
Individual County Expenditures to the Aggregate Expenditures of All Counties	64.54%	17.94%	12.45%	5.08%	100.00%
Individual County Expenditures on Visitors to the Aggregate Expenditures on Visitors for All Counties	49.05%	25.09%	13.10%	12.75%	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. C.

To: Eugene Tian/DBEDT,
Cc:
Bcc:
Subject: Comments on TAT Working Group Recommendation

Base on the TAT Working Group recommendations, I have the following:
Assuming TAT revenue = $400M (FY 2015 = $395M)

HTA first allocation = $83M
State allocation = 90% x (400-83) x 60% = $171.2M
County allocation = 90% x (400-83) x 40% = $114.1 M
Remaining = $400M - $83 - $171.2M - $114.1M = $31.7M

The above will result in a county share of 28.5%

Historically, county shares are the following:

1990	29.5%
1991	95.0%
1992	94.8%
1993	94.8%
1994	88.1%
1995	79.2%
1996	79.2%
1997	79.2%
1998	79.2%
1999	44.8%
2000	44.8%
2001	44.8%
2002	44.8%
2003	44.8%
2004	44.8%
2005	44.8%
2006	44.8%
2007	44.8%
2008	44.8%
2009	42.9%
2010	38.2%
2011	35.9%
2012	28.9%
2013	20.6%

It seems that the county share is on the low side.

As for the allocation among the counties, I have the following comparison:

County	Current TAT allocation	If based on daily visitor census	If based on visitor spending	If based on place of hotel operation
Honolulu	44.10%	47.30%	51.30%	42.50%
Maui	22.80%	26.70%	26.30%	34.50%
Hawaii	18.60%	14.40%	12.70%	13.20%
Kauai	14.50%	11.50%	9.70%	9.80%

Note: TAT collection by hotel operation data were from DoTax but they were 2003 data. Need a special request to the Tax Department if more recent data are needed.

Eugene Tian, Ph.D.
Economic Research Administrator
Research and Economic Analysis Division
Hawaii State Department of Business, Economic Development & Tourism
Phone: 808-586-2474

Agenda item V.c.

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.