

February 14, 2024

MEMO TO: BFED-71 File

F R O M: Yuki Lei K. Sugimura, Chair *Yuki Lei Sugimura*
Budget, Finance, and Economic Development Committee

SUBJECT: **TRANSMITTAL OF INFORMATIONAL DOCUMENT RELATING TO
BILL 7 (2024), AMENDING CHAPTER 3.47, MAUI COUNTY CODE,
RELATING TO THE COUNTY TRANSIENT ACCOMMODATIONS
TAX** (BFED-71)

The attached informational document pertains to Item 71 on the
Committee's agenda.

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Attachment

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OFFICE OF THE COUNTY AUDITOR

COUNTY OF MAUI
2145 WELLS STREET, SUITE 303
WAILUKU, MAUI, HAWAII 96793
<http://www.mauicounty.gov/auditor>

OFFICE OF THE
COUNTY CLERK

December 12, 2023

Honorable Alice L. Lee, Chair
and Members of the Council
County of Maui
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Lee and Members:

**SUBJECT: REPORT NO. 23-01, EVALUATION OF THE ASSESSMENT
AND COLLECTION OF MAUI COUNTY TRANSIENT
ACCOMMODATIONS TAX**

Pursuant to Section 3-9.2(2) of the Revised Charter of the County of Maui (1983), as amended, transmitted are 19 bound copies and 2 unbound copies of Report No. 23-01 entitled, "Evaluation of the Assessment and Collection of Maui County Transient Accommodations Tax".

Sincerely,

A handwritten signature in black ink, appearing to read "Lance T. Taguchi".

LANCE T. TAGUCHI, CPA
County Auditor

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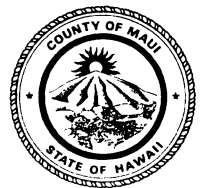
Enclosures

cc w/o enc: Richard T. Bissen, Mayor
Kekuaupio Akana, Managing Director
Josiah Nishita, Deputy Managing Director
Scott Teruya, Director of Finance

cc w/enc: Yuki Lei K. Sugimura, Council Vice-Chair
Tasha Kama, Presiding Officer Pro Tempore
Tom Cook, Councilmember
Gabe Johnson, Councilmember
Tamara Paltin, Councilmember
Keani N.W. Rawlins-Fernandez, Councilmember
Shane M. Sinenci, Councilmember
Nohelani U`u-Hodgins, Councilmember

Evaluation of the Assessment and Collection of Maui County Transient Accommodations Tax

Report No. 23-01
December 2023



Office of the County Auditor
County of Maui

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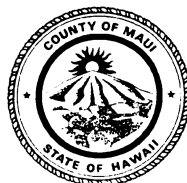
Office of the County Auditor

The mission of the Office of the County Auditor is to:

- Serve as a catalyst for positive change in County government through focused independent audits and examination.
- Advocate for the efficient and appropriate use of public resources.
- Increase government transparency for the purpose of bringing a higher quality of life to the citizens of Maui County.

The Office of the County Auditor consists of a County Auditor and necessary staff, and is responsible for promoting economy, efficiency, and improved service in the transaction of the public business in both the legislative and executive branches.

To ensure the objectivity of the Office of the County Auditor, the Revised Charter of the County of Maui (1983), as amended, requires that the County Auditor be independent of the Mayor and the County Council. As such, the County Auditor is appointed to a six-year term.



Office of the County Auditor County of Maui

2145 Wells Street, Suite 303
Wailuku, Hawaii 96793

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Preface

This evaluation was initiated by the Office of the County Auditor pursuant to Section 3-9.1 of the Revised Charter of the County of Maui (1983), as amended, and the revised Plan of Audits for Fiscal Year 2023 issued by the Office of the County Auditor. This evaluation was selected because: 1) on November 1, 2021, the County of Maui ("County") was responsible for assessing and collecting the Maui County Transient Accommodations Tax ("MCTAT") directly from its taxpayers; 2) MCTAT revenue is anticipated to represent a larger portion of the County's total revenue than in the past; and 3) transient accommodations tax is more variable and, therefore, requires more effort to produce quality accounting estimates. The evaluation was conducted from July 2022 through March 2023.

We wish to express our appreciation for the cooperation and assistance extended by the director and staff of the Department of Finance, as well as others who assisted us throughout the course of the evaluation.

Lance T. Taguchi, CPA
County Auditor

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EXECUTIVE SUMMARY

Evaluation of the Assessment and Collection of Maui County Transient Accommodations Tax

Report No. 23-01, December 2023

Key ideas found in full report:

A Brief History of Transient Accommodations Tax pg. 2

Initial Staffing was Not Sufficient from the Start pg. 7

Continued Difficulty with Staffing.....: pg. 7

A Big Fix was Needed..... pg. 8

A Misguided Mindset - the Root of the Problem pg. 8

Collection Less Likely as Time Passes pg. 10

The Maui County Transient Accommodations Tax (“MCTAT”) took effect on November 1, 2021, and requires any person providing transient accommodations to report and pay 3% on all gross rental proceeds to the County of Maui (“County”).

Given that MCTAT was being assessed and collected by the County for the first time, the Office of the County Auditor set out to evaluate the effectiveness and fairness of how this new tax was implemented and administered.

For Fiscal Year 2022, the County recognized over \$56.9 million of MCTAT revenue on its financial statements. However, as of June 30, 2022, only \$40 million¹ was actually deposited into the County’s treasury.

While the County deposited over \$40 million in MCTAT revenue, the Director and Deputy Director of the County Department of Finance (“Management”) never established the groundwork required to successfully administer the MCTAT for the long term. The cause appears to be the misguided mindset of Management that MCTAT was a “voluntary tax”. That mindset resulted in less than desirable outcomes. For example:

- The County’s financial statements needed to be corrected by \$16.7 million because Management failed to estimate MCTAT due but not yet collected;
- After only a few months, the Deputy Director of Finance abandoned efforts to reconcile County and State records and, therefore, was unable to properly establish an accurate receivable list and issue collection letters; and
- As of April 2023, the County Department of Finance’s MCTAT Section had a vacancy rate of 75%, having filled only two out of eight positions.

We also found that over \$9.3 million of MCTAT was delinquent as of June 30, 2022, and the County made little to no effort to collect it. The lack of efforts to collect is rooted in Management’s failure to establish and maintain an accurate receivable list. We acknowledge

¹ \$56.9 million less \$16.7 million recognized as due but not yet collected.

the difficulties involved in administering a new tax, but there is no excuse for County government to levy a tax without fully knowing how much is due and who has or hasn't paid.

Finally, the Office of the County Auditor was denied access to complete, detailed MCTAT information. As a result, we were unable to complete a portion of our work. An agreement made between the State Department of Taxation and the County Department of Finance restricted access to those detailed MCTAT information to only two (2) County employees--the Director of Finance and the Deputy Director of Finance.

We anticipated providing County stakeholders with a deeper understanding of the MCTAT tax base beyond just hearing how much tax was collected. However, since only Management has access to detailed MCTAT information, we recommend written quarterly reports be provided to the Maui County Council. Those reports should, at minimum, include:

1. The number of and estimated MCTAT due from County transient accommodation units, grouped by the respective County Council district in which the unit is located.
2. The number of County transient accommodation units, grouped by the taxpayer's mailing address as follows:
 - a. Within Maui County.
 - b. Outside Maui County and within the State of Hawaii.
 - c. Within the United States, including Alaska and U.S. territories.
 - d. Outside the United States.
3. An aged accounts receivable list of delinquent County transient accommodation units, grouped as follows:
 - a. 1-30 days past due.
 - b. 31-60 days past due.
 - c. 61-90 days past due.
 - d. Over 90 days past due.

It is our opinion that such reporting would increase transparency relating to the County's taxation practices, as well as support the County's zoning and affordable housing initiatives.

Management's Response

The Director of Finance expressed general agreement with the evaluation's findings and recommendations and provided clarifying comments.

A copy of Management's comments is attached as "Attachment 1".

Chapter 1

Introduction

This evaluation was initiated by the Office of the County Auditor pursuant to 3-9.1 of the Revised Charter of the County of Maui (1983), as amended, and the revised Plan of Audits for Fiscal Year (“FY”) 2023 issued by the Office of the County Auditor on February 2, 2023. This evaluation was selected because: 1) on November 1, 2021, the County of Maui (“County”) was responsible for assessing and collecting the Maui County Transient Accommodations Tax (“MCTAT”) directly from its taxpayers; 2) MCTAT revenue is anticipated to represent a larger portion of the County’s total revenue than in the past; and 3) transient accommodations tax is more variable and, therefore, requires more effort to produce quality accounting estimates.

This evaluation was conducted from July 2022 through March 2023.

BACKGROUND

Taxes collected by the County are used to provide for the health and public safety of its residents and visitors, fund open space and affordable housing projects, maintain parks, and support a wide range of local non-profits. The largest portion of the County’s tax revenue is from real property. However, a change in State law resulted in an increase of transient accommodations tax revenue from an average of \$23 million per year for the last decade to over \$56.9 million in FY 2022 alone. In FY 2023, the County anticipated receiving over \$64 million in revenue from MCTAT.¹

Unlike real property tax, transient accommodations tax has more inherent variability because it is derived from tourist volume and the dollars those tourists are willing to pay for their accommodations. In instances of taxpayer non-payment, the County cannot simply place a lien against that real property. Thus, the task of collecting past due taxes is even more difficult.

While the ability to collect transient accommodations taxes provides the County with a great opportunity to strengthen one of its revenue sources, it also presents many challenges that need to be addressed.

¹ Amended MCTAT revenue via Ordinance No. 5543, Bill No. 60 (2023).

A Brief History of Transient Accommodations Tax

Act 340

In 1986, the Legislature of the State of Hawaii passed Act 340, relating to transient accommodations tax. Amongst other things, Act 340 imposed and levied a tax on gross income or gross proceeds derived from furnishing transient accommodations. Any person operating a transient accommodation in Hawaii is subject to the tax. The State Transient Accommodations Tax ("TAT") became effective on January 1, 1987.

Act 340 initially imposed a TAT rate of 5%. Over the years, TAT was revised as follows:

January 1, 1987 to June 30, 1994:	5.0%
July 1, 1994 to December 31, 1998:	6.0%
January 1, 1999 to June 30, 2009:	7.25%
July 1, 2009 to June 30, 2010:	8.25%
July 1, 2010 to December 31, 2017:	9.25%
January 1, 2018 to December 31, 2030:	10.25%

Act 156

In 1998, the Legislature of the State of Hawaii passed Act 156, relating to the creation of the Hawaii Tourism Authority. The purpose of the Hawaii Tourism Authority is to develop, market, and research tourism. Partial funding for the Hawaii Tourism Authority was to come from the TAT rate increase from 6% to 7.25%.

Act 156 also expanded the State's ability to levy, assess, and collect on timeshare vacation units. Act 156 required timeshare plan managers to remit TAT at a rate of 7.25% of fair market rental value to the State.

Allocation of TAT to the County

Beginning in 1990, the State paid the County a fixed allocated percentage of the TAT collected statewide. While the original basis for that fixed allocation remains a mystery², recent data suggests the County generated more TAT revenue than the fixed allocation it received from State. Over the past ten Fiscal Years, the County received the following amounts from the State:

2012	\$22,902,900
2013	\$21,204,000

² State-County Functions Working Group Report to the Hawaii Legislature, December 2015, Appendix B-13.

2014	\$21,204,000
2015	\$23,484,000
2016	\$23,446,400
2017	\$23,484,000
2018	\$23,484,000
2019	\$23,484,000
2020	\$19,570,000
2021	\$0

All allocations of TAT revenues to the counties were suspended from May 2020 to May 2021 as part of Governor David Ige’s Sixth Emergency Proclamation relating to the coronavirus pandemic.

**County Authorized
to Collect a Maui
County Transient
Accommodations Tax**

On July 8, 2021, the Legislature of the State of Hawaii passed Act 1 that allows the County to establish a transient accommodations tax, provided the tax not exceed a maximum rate of 3%.

In August of 2021, the Maui County Council’s Budget, Finance, and Economic Development (“BFED”) Committee began its deliberations relating to the implementation of the MCTAT.

On September 1, 2021, the BFED Committee recommended passage of a Bill to implement a 3% MCTAT rate.

On October 1, 2021, the County Council passed Ordinance No. 5273, Bill No. 101 (2021), Draft 1, to implement a 3% MCTAT rate.

On October 5, 2021, Mayor Michael P. Victorino signed a 3% MCTAT rate into law.

On November 1, 2021, the Ordinance implementing a 3% MCTAT rate took effect.

The “Transient Accommodations Tax” Section was created and falls under the direction of the Director and Deputy Director of the County’s Department of Finance (“Management”).

EVALUATION OBJECTIVES

1. To assess the effectiveness and fairness within which the various duties and functions of the MCTAT Section were performed;
2. To assess the plan and timing of the implementation of the MCTAT by the County's Mayor, Council, and departments;
3. To assess the effectiveness and fairness of the collection of the MCTAT;
4. ~~Gather data from MCTAT information to produce reports that may be pertinent to County stakeholders;~~ and
5. Make recommendations, when appropriate.

During the course of our evaluation, we were informed that certain detailed MCTAT information is confidential and could not be shared with the Office of the County Auditor. We believe the detailed MCTAT information is in the possession of multiple County Department of Finance personnel and stored on County computer systems. However, in an abundance of caution to not violate State law, we voluntarily removed Objective No. 4 above from our evaluation and report the matter as a finding. The full details of the finding and our recommended workaround are found in Chapter 2.

EVALUATION SCOPE AND METHODOLOGY

Our initial scope covered November 1, 2021 through June 30, 2022, but was subsequently expanded through March 31, 2023. This expansion of scope was done to incorporate relevant items, including:

1. FY 2022 MCTAT accounts receivable information;
2. FY 2022 audit adjustment recommended by N&K CPAs, Inc.³, and agreed to by the County's Department of Finance. The adjustment involved \$16,694,480 million of MCTAT due but uncollected by the County as of June 30, 2022; and
3. Information provided by the County's Department of Finance and Department of Personnel Services relating to vacancies within the MCTAT Section and the County's hiring practices.

³ The external auditors contracted by the Office of the County Auditor to perform the independent financial audit of County accounts.

This evaluation was performed during the initial year of the MCTAT, therefore, it focused on the process used to implement the MCTAT and knowledge base of the employees assigned to this Section. Collection procedures and follow-up issues were evaluated.

The evidence gathering and analysis techniques used to meet our evaluation objectives included, but were not limited to:

Interviews, discussions, and correspondence

- Various personnel from the County Departments of Finance, of Personnel Services, of the Corporation Counsel, and Office of the Mayor;
- N&K CPAs, Inc., the external auditors contracted by the Office of the County Auditor to perform the independent financial audit of County accounts;
- Personnel from the State Department of Taxation and the Office of the Attorney General; and
- Private sector accounting professionals with direct knowledge of taxation policies and transient accommodations tax.

Document review

- Hawaii Revised Statutes; Hawaii Administrative Rules; the Revised Charter of the County (1983), as amended; the Maui County Code; and resolutions adopted by the Maui County Council;
- County FY Budget documents, including Maui County Council and Committee meeting minutes and presentation materials;
- Legislation, committee reports, and other documents including presentations made to and approved by the Maui County Council;
- System-generated reports, redacted cash receipt records, redacted Microsoft access reports, and other supporting documents provided by the County Department of Finance;
- Various departmental communications, reports, and other related documents; and
- Redacted transient accommodations tax information provided by the State Department of Taxation to the County Department of Finance;

Analysis

- Review of State statutes and County codes, rules, and correspondence related to the establishment of the MCTAT.
- Review of information provided by the State Department of Taxation regarding TAT revenues reported by taxpayers.
- Review of MCTAT receipt schedule prepared by the County Department of Finance.
- Review of schedule of unpaid MCTAT prepared by the County Deputy Director of Finance.
- Recalculate accounts receivable as of June 30, 2022 prepared by County employees and compare amounts to accounts receivable calculated by N&K CPAs, Inc.

Chapter 2

Evaluation Findings

FINDING 1

A last-minute \$16.7 million fix was required due to a material weakness in the County Department of Finance's estimates relating to MCTAT

The changes to State law presented the County with an excellent opportunity to more than double an existing revenue stream. In prior periods when TAT was allocated to the counties by the State, the County's portion was, on average, \$22 million per year. Under the new MCTAT established by ordinance, the County recognized \$56.9 million in revenue for FY 2022 alone.

Unfortunately, Management's failure to establish the groundwork required to successfully administer the MCTAT resulted in less than desirable outcomes.

Initial Staffing was Not Sufficient from the Start

At the September 1, 2021 meeting of the BFED Committee, the Deputy Director of Finance stated, "should the Council pass the bill...and with the implementation of October 1, the Department of Finance will be ready". However, aside from the Deputy Director of Finance, there were zero employees assigned to administer MCTAT.

By the latter part of October 2021, the MCTAT Section was comprised of the Deputy Director of Finance and a single employee who was a temporary external hire. Due to the sheer volume associated with administering and collecting a new tax, the MCTAT Section was quickly overrun. Within months, efforts to reconcile County and State records (conceivably to create an Accounts Receivable record) and to issue collection letters were abandoned.

No efforts to collect MCTAT have been made for December 2021 through current tax periods.

Continued Difficulty with Staffing

By December 2021, four positions were authorized in the MCTAT Section: Revenue Manager, Tax Accounting Technician II, and two Account Clerk III.

In October 2022, a new organizational chart was approved. Four more positions were added, bringing the total authorized positions in the MCTAT Section to eight.

In October and November 2022, two permanent employees--an Account Clerk III and Revenue Manager--were finally hired. We

note, however, this was nearly a year after the effective date of the MCTAT.

As of April 2023, the MCTAT Section had a vacancy rate of 75%, having filled only two out of eight positions.

A Big Fix was Needed

An even more quantifiable outcome came in the form of a \$16,694,480 correction to the County's Fiscal Year Ending 2022 financial statements.

The County only recorded MCTAT revenues when collected and, therefore, failed to estimate the MCTAT due but not yet collected. That estimate is required by accounting principles generally accepted in the United States of America (US GAAP).

Again, MCTAT requires any person providing transient accommodations to report and pay 3% on all gross rental proceeds to the County. Our opinion is that MCTAT is earned when the transient accommodation is used. Therefore, we informed the County's external auditors, N&K CPAs, Inc., that the County was recording MCTAT revenues when *collected* rather than when *earned*.

The external auditors concurred with our conclusion and they provided an estimate that \$16,694,480 of MCTAT was due but not yet collected as of June 30, 2022. The estimate required an audit adjustment to the County's financial statements.

The audit adjustment of \$16.7 million—suggested by the external auditors and *agreed to* by the Department of Finance—meant that almost 30% of all the MCTAT recorded on the County's books was not actually received as of June 30, 2022.

A Misguided Mindset – the Root of the Problem

The cause of those three outcomes appears to be rooted in Management's misguided mindset that MCTAT is a "voluntary tax".

Multiple statements were made by the Deputy Director of Finance at the September 1, 2021 meeting of the BFED Committee. During this meeting, a Councilmember questioned the use of the term "voluntary tax" and cautioned how its use could be construed as something that is optional. In response to the Councilmember's inquiry, the Deputy Director of Finance attempted to attribute use of the term to the State Department of Taxation ("DOTAX"). The Deputy Director of Finance explained that "voluntary tax" was a term communicated to Management by the DOTAX.

While it is possible that the words “voluntary” and “tax” were literally and separately used by the DOTAX in its communications to Management, it seems less plausible that the State agency tasked with “administering and enforcing the tax revenue laws and the collection of taxes and other payments” would specifically call a tax under its purview a “voluntary tax”.

Section 3.47.010, Maui County Code, is quite clear:

“A three percent transient accommodations tax is established on all gross rental, gross rental proceeds, and fair market rental value considered taxable under the definitions of section 237D-1, Hawai`i Revised Statutes. This tax is considered levied on November 1, 2021.”

Nevertheless, in correspondence dated August 29, 2022 to the Office of the County Auditor, the Deputy Director of Finance continued to refer to MCTAT as a “voluntary tax”.

We recommend Management:

1. Administer Chapter 3.47 of the Maui County Code whereby all transient accommodations subject to the tax pay MCTAT;
2. Establish and maintain base-level accounting practices for accounts receivables in order to provide accurate estimates of MCTAT; and
3. Develop a realistic assessment of the level of staffing required to accurately track and collect MCTAT, not just what’s needed to process payments sent to the County.

FINDING 2

Over \$9.3 million of MCTAT was not paid to the County as of June 30, 2022. County made little to no effort to collect.

Not everyone who owes MCTAT is paying. And as a result, \$9.3 million or 16% of all MCTAT recorded on the County's financial statements, was delinquent as of June 30, 2022. Except for a single attempt to notify delinquent taxpayers that MCTAT was due by December 20, 2021, no efforts were made to track down the millions in MCTAT owed to the County.

It is our opinion that the lack of effort to collect delinquent MCTAT is rooted in Management's failure to establish and maintain an accurate "aged accounts receivable list" that shows who owes what and from when. While we acknowledge the difficulties involved with administering a new tax, there is no excuse for County government to levy a tax without knowing how much is due and who has or hasn't paid.

Section 3.47.110.B, Maui County Code, states:

"If the director or designee determines that there is a deficiency in the payment of any tax due under this chapter, the director or designee must assess the taxes and interest due the County, give notice of the assessment to the persons liable, and make demand upon the persons for payment." [emphasis added]

Collection Less Likely as Time Passes

According to the *IRS Collectability Curve* report¹: "dollars collected decrease by more than 50 percent from the first year to the second year; and in the third year, collections decreased by one-third from the amount collected in the second year".

Simply put, collection of delinquent MCTAT will be less likely the longer it is delinquent.

We recommend Management:

1. Must make a significant effort to collect MCTAT from delinquent taxpayers; and
2. Should record all MCTAT earned and maintain an aged accounts receivable list.

¹ Beers, T., Hatch, C., Saldana, J., and Wilson, J.; "IRS Collectability Curve"; Taxpayer Advocate Service Research, Internal Revenue Service; <https://www.irs.gov/pub/irs-soi/15resconwilson.pdf>.

FINDING 3

Detailed MCTAT information was not made available to the Office of the County Auditor

As noted in Chapter 1, the Office of the County Auditor was denied access² to certain detailed MCTAT information that the County Department of Finance received from the DOTAX. Those detailed MCTAT information were deemed confidential.

A document dated November 15, 2021 between the DOTAX and the County Department of Finance (“Agreement”), identifies the Director of Finance and Deputy Director of Finance as the only County personnel authorized to “request, receive, and provide confidential tax information”.

However, we believe it is a reasonable expectation that personnel within the County Department of Finance--who are not expressly authorized by the Agreement--have access to the detailed MCTAT information. We further believe the detailed MCTAT information is stored on County-owned computer systems. We have not tested how both of these may or may not comply with the Agreement or State law.

Hawaii Revised Statutes Section 237D-13 and Maui County Code Section 3.47.130 do not provide explicit authorization for the Office of the County Auditor to have access to MCTAT information from DOTAX. Nevertheless, an argument could be made that those files now fall within the Office of the County Auditor’s authority to “examine and inspect any record of any agency or operation of the county”³.

Given the circumstances and the desire to not let this issue impede our evaluation any further, the Evaluation Objectives were revised to remove Objective No. 4. As a result, we report that we were unable to complete a portion of our planned work.

As part of that planned work, we anticipated preparing reports from those detailed MCTAT information that were withheld. For example, we believe that detailed MCTAT information contain answers and could provide valuable insight to County stakeholders regarding the following questions:

1. Where are transient accommodation rentals occurring?
Are those rental units in areas that are zoned or not zoned for transient rental?

² The Office of the County Auditor was provided an unsigned and undated Confidentiality Agreement from DOTAX, but in our opinion, we were not authorized to execute it.

³ Section 3-9.2(3) of the Revised Charter of the County of Maui (1983), as amended.

2. How is ownership of the units held: by foreigners, U.S. mainlanders, or Hawaii residents from Maui or other islands?
3. How delinquent are the taxpayers that are not paying?
4. How delinquent are the taxpayers that are not paying the correct amount due?

Because we were denied access to the detailed MCTAT information, we are unable to determine who is paying and who is not. We are unable to identify which communities are driving MCTAT revenue for the County. And, finally, we are unable to determine if vacation rentals are rampantly operating within residential neighborhoods.

County stakeholders deserve a deeper understanding of the MCTAT tax base beyond just hearing how much tax was collected.

We recommend the following:

Amend the Maui County Code to require the County Department of Finance to submit written reports to the Maui County Council at least quarterly. Those reports, at minimum, should include:

1. The number of and estimated MCTAT due from County transient accommodation units, grouped by the respective County Council district in which the unit is located.
2. The number of County transient accommodation units, grouped by the taxpayer's mailing address as follows:
 - a. Within Maui County.
 - b. Outside Maui County and within the State of Hawaii.
 - c. Within the United States, including Alaska and U.S. territories.
 - d. Outside the United States.

3. An aged accounts receivable list of delinquent County transient accommodation units, grouped as follows:
 - a. 1-30 days past due.
 - b. 31-60 days past due.
 - c. 61-90 days past due.
 - d. Over 90 days past due.

It is our opinion that such reporting would increase transparency relating to the County's taxation practices, as well as support the County's zoning and affordable housing initiatives.

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OFFICE OF THE COUNTY AUDITOR'S COMMENTS ON MANAGEMENT'S RESPONSE

December 4, 2023

Management's Response

The Director of Finance expressed general agreement with the evaluation's findings and recommendations and provided clarifying comments.

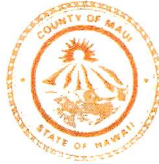
A copy of Management's comments is attached as "Attachment 1".

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RICHARD T. BISSEN, JR.
Mayor

SCOTT K. TERUYA
Director

STEVE A. TESORO
Deputy Director



DEPARTMENT OF FINANCE
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793
www.mauicounty.gov

December 4, 2023

Mr. Lance T. Taguchi
Auditor, County of Maui
2145 Wells Street
Wailuku, Hawaii 96793

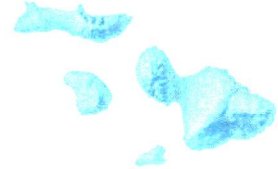
Dear Mr. Taguchi:

**SUBJECT: RESPONSE TO EVALUATION OF THE ASSESSMENT AND
COLLECTION OF MAUI COUNTY TRANSIENT
ACCOMMODATIONS TAX (Project 23-01)**

This transmission is in receipt to your letter dated November 20, 2023. Thank you for allowing the opportunity to respond.

As noted in the Evaluation of the Assessment and Collection of Maui County Transient Accommodations Tax (MCTAT), there were various shortcomings as it relates to the implementation and administration of the new tax. Many of these shortcomings were the direct result of the short time period in which to implement the program as well as a lack of staffing resources to administer the program. Please note that the Deputy Director of Finance at the time the new tax took effect shouldered the burden of this implementation upon herself as there were no dedicated resources available to implement the new tax in short order. There were also limited resources available to assist in this endeavor. However, given these shortcomings, the County was still successfully able to collect over \$80M in MCTAT in just its first full fiscal year of collection efforts. The collection process and related reporting continue to be a focus of the Department of Finance as we look to fully integrate the services of our current software solution vendor from the collection process through the reconciliation process.

We agree that the former Deputy Director of Finance incorrectly referred to the Maui County Transient Accommodations Tax as a "voluntary tax." This is a self-reported tax, and taxpayers are required to pay MCTAT based on 3% of the taxable proceeds that they reported periodically and annually to the State Department of Taxation (DoTAX). The County has been assessing penalties and interest since December 1, 2022, for late payments, and it is in the process of hiring a Delinquent Tax Collection Assistant II in the Compliance Unit for collection and enforcement purposes.



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*Lance T. Taguchi, Auditor
December 4, 2023
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The Department is still awaiting delivery of Phase II of the software solution contract with its vendor to implement a reconciliation portal and provide reports. Once deployed, this should allow the County the ability to reconcile a taxpayer's MCTAT payments to their State filing, and it should show any delinquencies and penalties and interest owed. The portal should also allow the ability to run various reports, specifically a receivables report for future reference. Unfortunately, our contractor has not committed to when Phase II will be deployed as we first address any final concerns related to the collection process.

The Department agrees that submitting quarterly reports to the County Council would increase transparency. Additionally, it would provide a better understanding for administering the program. However, there are some data limitations to what is being recommended. The Department does not have taxpayer data broken down by County Council districts. DoTAX issues taxpayers the TA number, and taxpayers can have one TA number for multiple properties each in different districts. The data that DoTAX shares does not break down where the properties are located. Providing data based on the taxpayer's address may also be difficult. There are several bulk filers or taxpayer representatives who use their address on behalf of their client when making payments to Maui County. DoTAX has shared some taxpayer address data with the County, but it has made it clear that this data will not be provided with any regularity. Currently, the County does not have a repository for all taxpayer addresses or a mechanism to allow for address changes, since those are formally done with DoTAX. An aged accounts receivable list will hopefully be provided once our contractor delivers Phase II. Please note that all the counties of the state are currently scheduled to meet with DoTAX in the coming weeks to discuss available data and transfer of data to the counties.

Staffing continues to be a challenge for the MCTAT office, which is currently only staffed at 37.5% or 3 staff members (a 62.5% vacancy rate). The MCTAT office has just recently begun active recruitment of three additional positions as the position descriptions were finalized in recent months. The Tax Information Specialist I and Tax Auditor IV positions remain with the Department of Personnel Services for finalization of position descriptions and recruiting will begin as soon as possible once completed. The lack of staffing has hindered the collection effort of delinquent taxpayers as the current focus of the limited staff is to ensure accurate and timely processing of those payments made by taxpayers properly self-reporting the tax. It is understood that the county has a statutory three-year time period to collect past due MCTAT and a concentrated effort to collect delinquent taxes will be made as staffing increases.

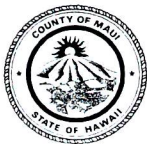
Should you have any questions, please feel free to contact me at extension no. 7474 or Deputy Director Steve Tesoro at extension no. 7475.

Sincerely,



SCOTT K. TERUYA
Director of Finance

Attachments



Lance T. Taguchi, CPA
County Auditor

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*Evaluation of the Assessment and Collection of
Maui County Transient Accommodations Tax*

Report No. 23-01, December 2023

The Office of the County Auditor is tasked with promoting economy, efficiency, and improved service in the transaction of public business in the legislative and executive branches of the County. Copies of this audit report can be obtained by contacting the Office of the County Auditor or visiting our website:

<https://www.mauicounty.gov/2032/Audit-Reports-Projects>.