COUNCIL OF THE COUNTY OF MAUI

POLICY AND INTERGOVERNMENTAL AFFAIRS COMMITTEE

February 26, 2016

Committee Report No. __________

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Policy and Intergovernmental Affairs Committee, having met on December 14, 2015, and February 9, 2016, makes reference to the following:

1. County Communication 15-254, from the Council Chair, relating to the State of Hawaii's Transient Accommodations Tax.

2. County Communication 16-2, from the Council Chair, transmitting a proposed resolution entitled "URGING THE LEGISLATURE TO PROVIDE THE COUNTIES WITH THE SAME SHARE OF TRANSIENT ACCOMMODATIONS TAX REVENUE AS THE STATE."

   The purpose of the proposed resolution is to urge the State Legislature to enact legislation providing the counties with the same share of TAT revenue as the State.

At its February 9, 2016, meeting, your Committee received a revised proposed resolution.

Your Committee expressed its support for an equal split of TAT revenue between the State and the counties. This would promote fairness for county taxpayers and a sustainable visitor industry.

Your Committee voted 7-0 to recommend adoption of the revised proposed resolution. Committee Chair Victorino, Vice-Chair Couch, and members Baisa, Carroll, Crivello, Hokama, and White voted "aye." Committee members Cochran and Guzman were excused.

Your Policy and Intergovernmental Affairs Committee RECOMMENDS that Resolution __________, as revised herein and attached hereto, entitled "URGING THE LEGISLATURE TO PROVIDE THE COUNTIES WITH THE SAME SHARE OF TRANSIENT ACCOMMODATIONS TAX REVENUE AS THE STATE," be ADOPTED.

COUNCIL OF THE COUNTY OF MAUI

POLICY AND INTERGOVERNMENTAL AFFAIRS COMMITTEE

Committee Report No. __________

This report is submitted in accordance with Rule 8 of the Rules of the Council.

Michael P Victorino

MICHAEL P. VICTORINO, Chair

pia:cr:16057aa:kcw

Resolution

No. __________

URGING THE LEGISLATURE TO PROVIDE THE COUNTIES WITH THE SAME SHARE OF TRANSIENT ACCOMMODATIONS TAX REVENUE AS THE STATE

WHEREAS, since 1987, the State of Hawaii has had a tax upon room revenues derived from transient accommodations, known as the Transient Accommodations Tax, or TAT; and

WHEREAS, pursuant to Act 185 (1990), the TAT rate was set at 5 percent, with 95 percent of revenue returned to the counties under a statutorily established formula and the State retaining 5 percent for administrative purposes; and

WHEREAS, if the distribution to the counties were still based on the same calculation, the counties' share would amount to $216 million at current revenue levels; and

WHEREAS, the State subsequently diminished the counties' share of TAT revenue at various times for multiple purposes, such as revenue being redirected to the Hawaii Convention Center and the Tourism Special Fund, respectively; and

WHEREAS, after allocations to the Hawaii Convention Center and the Tourism Special Fund, the counties share of TAT revenues was adjusted to 44.8 percent of the total, which would amount to $188 million if calculated under current revenues; and

WHEREAS, the Legislature dramatically reallocated TAT revenue beginning in 2009 to help balance the State budget due to the economic downturn; and

WHEREAS, the State began the process of increasing the TAT, arbitrarily capping the counties' share to help balance its budget, but offered no assistance as the counties also experienced economic hardship in the ensuing years; and

WHEREAS, Maui County's property values, which form the economic base for the County's tax revenue, dropped nearly 25 percent during the economic downturn; and

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WHEREAS, since 2007, the State's TAT revenue increased by $196.6 million, or 2,363 percent, while the counties' TAT revenue increased by only $2.2 million, or 2.2 percent; and

WHEREAS, during the same period, the counties have incurred $170 million in cost increases in fire, police, and park services; and

WHEREAS, a *Civil Beat* article entitled "Should Counties Get Bigger Share Of Hotel Tax Revenue?" reported the following on December 30, 2015:

> The state has hauled in record amounts of TAT revenue over the past few years by limiting the counties' allocation. Without the cap, the counties would have seen millions of additional dollars as the tourism industry has grown; and

WHEREAS, TAT revenue for Fiscal Year ("FY") 2016 is expected to be about $450 million; and

WHEREAS, the counties use TAT revenue to cover a portion of their visitor-related expenditures, as they bear significant responsibility for providing an array of services and infrastructure necessary to support a vibrant visitor industry; and

WHEREAS, the vast inequity in TAT-revenue distribution between the State and the counties has resulted in the costs of tourist-related expenses being unfairly passed on to county residents; and

WHEREAS, according to the "2015 HVS Lodging Tax Report – USA," which surveyed 150 cities, counties, and special districts, 35 municipalities receive 100 percent of revenue from taxes on lodging, 127 receive 50 percent or more, and 148 receive at least 25 percent; and

WHEREAS, the four Hawaii counties would rank 150th in percent of revenue from taxes on lodging, if included in the report; and

WHEREAS, the State-County Functions Working Group, created by Act 174 (2014) to study TAT-revenue distribution, issued its Final Report in December 2015; and

WHEREAS, the Working Group's Final Report recommended: (1) about $113 million of TAT revenue be allocated to four State special purposes (the Hawaii Convention Center, the Tourism Special Fund, the Turtle Bay conservation easement, and the Special Land Development Fund); and (2) of the remaining TAT revenue, 55 percent be allocated to the State and 45 percent shared by the counties, without the imposition of a arbitrary cap; and

WHEREAS, history and data support a more appropriate and equitable distribution, with the State and the counties each getting equal allocations of TAT revenue; and

WHEREAS, when the General Excise Tax is also taken into account, the State currently provides a mere 17 percent of overall lodging-related revenue to the counties; and

WHEREAS, the State has adequate resources to make the adjustment because General Fund revenues for FY 2017 are projected to be more than $7.1 billion; and

WHEREAS, revenues have increased year over year, amounting to $547 million over FY 2016, or 8.3 percent; $825 million over FY 2015, or 13.1 percent; and $1.1 billion over FY 2014, or 19.2 percent; now, therefore,

BE IT RESOLVED by the Council of the County of Maui:

1. That it commends the State-County Functions Working Group for its research and deliberations;

2. That it supports a portion of the Working Group's findings, including the elimination of the arbitrary cap on the distribution of Transient Accommodations Tax revenue to the counties;

3 That it does not support the recommended distribution in the Working Group's Final Report;

4. That it urges the State Legislature to enact legislation providing the counties with a 50 percent share of total TAT revenue, with the State retaining responsibility to fund the

Hawaii Convention Center, the Tourism Special Fund, the Turtle Bay conservation easement, and the Special Land Development Fund out of the State's share of TAT revenue;

5. That an equal split of TAT revenue between the State and the counties would be more consistent with the TAT's history and purpose, promote more fairness for county taxpayers, and promote a viable, sustainable visitor industry; and

6. That certified copies of this resolution be transmitted to the Honorable David Ige, Governor, State of Hawaii; the Honorable Shan S. Tsutsui, Lieutenant Governor, State of Hawaii; the Honorable Ronald D. Kouchi, President, Hawaii State Senate; the Honorable Joseph M. Souki, Speaker, Hawaii State House of Representatives; Members of the Hawaii State Senate; Members of the Hawaii State House of Representatives; the Hawaii Council of Mayors; and Members of the Hawaii State Association of Counties.