LATE TESTIMONY

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1186, S.D. 2, PROPOSED H.D. 1

April 4, 2011

RELATING TO THE TRANSIENT ACCOMMODATIONS TAX

Senate Bill No. 1186, S.D. 2, Proposed H.D. 1, temporarily: 1) establishes a minimum $10 daily tax when transient accommodations are furnished at no charge; 2) increases the tax rate on resort time share vacation units; and 3) limits the transient accommodations tax revenue distribution to the counties.

The Department of Budget and Finance supports the intent of this proposal. The provision to increase the tax rate on resort time share vacation units is similar to an administration proposal. Further, the other provisions in this proposed draft may help us address the general fund budget shortfall.

We defer to the Department of Taxation regarding technical issues of the bill.

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE
MAYOR

March 4, 2011

The Honorable Marcus Oshiro
House Committee on Finance
Twenty-Sixth Legislature
Regular Session of 2011
State of Hawaii

RE: Testimony of Peter B. Carlisle, Mayor on S.B. 1186, S.D. 2, PROPOSED H.D. 1; RELATING TO THE TRANSIENT ACCOMODATIONS TAX.

Chair Oshiro and members of the House Finance Committee, the City and County of Honolulu ("City") submits the following comments on the proposed H.D.1 to S.B. 1186, which proposes a four year cap on the counties' portion of the Transient Accomodations Tax (TAT) at the lesser of $101,978,000 dollars or the current funding level of 44.8 percent of the TAT revenues.

The TAT was created as a more equitable method of sharing state revenues with the counties in recognition of the greater impact of the visitor industry on county services such as police, fire protection, parks, beaches, water, roads, sewage systems and other tourism-related infrastructure. The legislature also noted that the distribution of the TAT to the counties was meant to provide a stable and continuing source of revenue for the counties. Any cap on the TAT disregards the wide array of county services provided to tourists and the visitor industry.

For example, the Honolulu Fire Department (HFD) is responsible for ensuring our visitor accommodations and visitor entertainment centers are properly fire protected. And, it also is an integral part of our City's first responder team that responds to rescues and medical emergencies, as well as fire alarms. In 2010, HFD estimates some of the following costs to serve tourists and the tourism industry:

Annual inspection of hotels and businesses	$150,000
Annual inspection of fire protection systems	$15,000
Review of fire protection plans for new construction in Waikiki	$8,000
Night inspection of hotel nightclubs	$11,000
Evacuation, extinguisher and other training of hotel staff	$3,000
Response to approximately 4,293 alarms in Waikiki	$1,502,250

Response to 65 alarms at Diamond Head trail	
Tourist-related incidents in areas outside of Waikiki	$80,000
Training costs	$150,000

In addition to HFD services, the City expends approximately $11 million a year to provide police services in police District 6 which covers Waikiki; this figure does not include indirect costs of the city in prosecuting and managing cases from Waikiki, nor salaries and benefits paid to police officers to patrol and prevent crimes, police vehicles, traffic enforcement, administrative and support services and facilities maintenance.

City public service agencies are also on-call to serve visiting dignitaries. However, these visitors such as President Obama, require tremendous amounts of additional resources. For example, a recent 2010 visit by President Obama required $228,000 in unbudgeted, non-reimburseable HPD overtime costs. And the City has budgeted $14 million in the FY 2011 budget for 2011 Asia-Pacific Economic Cooperation (APEC) conference set for this fall; the FY 2012 budget figures for APEC are expected to be higher.

City lifeguards also provide services for every tourist who ventures onto Oahu's beaches. Without lifeguard services, tourists unfamiliar with local ocean conditions would be at risk at Oahu beaches. If just $1 million were taken from the Ocean Safety Division's budget, the resultant loss would mean the potential loss of more than 30 positions and the loss of lifeguard services.

Besides the safety services provided by police, fire, lifeguards and ambulance, the City also provides major recreational opportunities for visitors and the tourist industry. Two major parks, Ala Moana and Kapiolani, bookend Waikiki and provide the largest green space and recreational area in Waikiki. Between 6,000 to10,000 people per day visit these parks and the Department of Parks and Recreation (DPR) estimates that at least 75% of these park users are visitors. Given the high usage and the long hours these parks are open, DPR have multi-shift, seven day a week operations. Restrooms in these parks are cleaned as many as six times a day compared with the once a day cleanings for most other parks. Other favorite tourist destinations in city parks include Sunset Beach, Banzai Pipeline, Rock Piles, Waimea Bay, Laniakea, Chun's Reef, Puena Point, Haleiwa and Velzyland. The estimated cost of recreational and maintenance operations in Kapiolani Park and Kuhio Beach area is approximately $3 million annual and the cost of maintain beach parks along the Windward and North Shore areas is approximately $3.7 million annually.

The City also provides other recreational and entertainment venues for visitors such as the Honolulu Zoo, the Waikiki Shell, the Neal Blaisdell Center, six municipal golf courses and the Royal Hawaiian Band performances. Entrance and users fees to these venues do not cover the cost of operations; city funds subsidize the cost of running and maintaining these venues.

Tourists and the tourism industry also impact the City's infrastructure. They rent cars and tour the island on buses that use city roadways. While it is impossible to specifically determine the tourist-related cost of maintaining county roads, the city is constantly spending money for basic and emergency road repairs. Currently, the City has begun a $6.6 million project to repave Waikiki roads and upgrade Waikiki sidewalks.

In addition, the storm water system is financed by the City, which has given priority to protecting recreational waters in areas such as Waikiki and Hanauma Bay. These programs protect near shore water quality and the debt service to pay for these improvements will come from the City's general fund.

Given the number and variety of services the City provides to tourists and the tourist industry, we are concerned about any effort to cap the counties' share of the TAT and we would prefer that no changes be made to the provisions relating to the counties portion of the TAT. However, we understand that the state and the counties currently face unprecedented financial challenges. So although we do not approve of any kind of cap, we appreciate the state's fiscal condition. Thus, if the state were to impose a cap notwithstanding the counties' objections, we much prefer the cap imposed under the proposed H.D. 1 to the cap provided in either the S.D. 1 (a $90 million cap for four years) or the S.D. 2 (an unspecified cap for four years).

Thank you for this opportunity to testify.

HAWAII COUNCIL OF MAYORS

LATE TESTIMONY

Testimony of the

Hawai'i Council of Mayors
Bernard P. Carvalho, Jr. Mayor of Kaua'i County
Peter Carlisle, Mayor of City and County of Honolulu
Billy Kenoi, Mayor of Hawai'i County
Alan Arakawa, Mayor of Maui County

The Honorable Marcus Oshiro, Chair
Committee on Finance
Twenty-Sixth Legislatures
Regular Session of 2011
State of Hawai'i

April 4, 2011

RE: Testimony on SB 1186, SD2, proposed HD1, Relating to the Transient Accommodations Tax

The Hawaii Council of Mayors ("HCOM") submits the following testimony on the proposed HD 1 version to S.B. 1186, SD2 which provides for a four year cap on the counties' portion of the Transient Accommodations Tax (TAT) at 44.8 percent of the TAT revenues or $101,978,000 whichever is less.

The transient accommodations tax (TAT) was established in 1986 under Act 304, Session Laws of Hawaii and imposed a five per cent (5%) tax on the gross revenues derived from the furnishing of transient accommodations.

In 1990, the Legislature recognized that "…many of the burdens imposed by tourism fall on the counties" and noted that increased pressures of the visitor industry meant greater demands on county services, such as "...providing, maintaining, and upgrading police and fire protection, parks, beaches, water, roads, sewage systems, and other tourism related infrastructure." (House Journal 1990; Conference Committee Report No. 207.)

Mayor Billy Kenoi
County of Hawaii
25 Aupuni Street
Hilo, Hawai'i 96720

Mayor Peter Carlisle
City and County of Honolulu
530 South King Street
Honolulu, Hawai'i 96813

Mayor Bernard Carvalho, Jr.
County of Kaua'i
4444 Rice Street
Līhu'e, Hawai'i 96766

Mayor Alan Arakawa
County of Maui
200 South High Street, 9th Floor
Wailuku, Hawaii 96793

In these difficult economic times, we ask that you remember that we all serve a common constituency. County governments have a major role in supporting tourists and our visitor industry. County governments maintain the public safety services, water and sewer infrastructure, roads, transportation, parks, and public facilities that support and benefit the visitor industry.

We believe that the current TAT rate and distribution equitably serves the underlying intent of the law, which is to support and improve the quality of Hawaii tourism product and infrastructure. For this reason, we are extremely concerned about any effort to cap the counties' share of the TAT and request that no changes be made to the provisions relating to the Counties portion of the TAT.

However, we also realize that the State currently faces unprecedented financial challenges. Notwithstanding the Counties' objections, if the State were to impose a cap that would sunset no later than June 30, 2015, we would prefer the language proposed in the HD 1 version of the Bill over either the SD 1 (a $90 million cap for four years) or the SD 2 (an unspecified cap for four years) versions of S.B. 1186.

Thank you for this opportunity to testify.

Mahalo,

Bernard P. Carvalho, Jr.
Mayor of Kaua'i

Peter Carlisle
Mayor of Honolulu

William P. Kenoi
Mayor of Hawai'i

Alan Arakawa
Mayor of Maui

AULANI

Disney

LATE TESTIMONY

April 4, 2011

TO: House Finance Committee
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

FROM: Todd Apo
Director, Disney Vacation Club - Hawai`i

DATE: Monday, April 4, 2011 - 3:30pm
Conference Room 308

RE: **SB1186 <u>RELATINGTO THE TRANSIENT ACCOMMODATIONS TAX</u>**

Chair Oshiro, Vice Chair Lee and Members of the Committee:

I am the Director of Public Affairs for Disney Vacation Club in Hawaii. Disney Vacation Club is the vacation ownership business unit of The Walt Disney Company. Disney Vacation Club currently operates 10 vacation ownership resorts in Florida, South Carolina and California; and, as you probably know, we are currently developing our newest vacation ownership resort right here in Hawai`i – Aulani, *Disney Vacation Club*® Villas, Ko Olina, Hawai`i.

Hawaii's timeshare industry currently accounts for thirteen percent of the State's lodging inventory with 10,000 timeshare units (460 of which will be located at Aulani). Timeshare has maintained consistent occupancy rates, even during the current tough economic times. In 2009, timeshare occupancy averaged approximately 91%, almost 25% higher than hotels. This has made the timeshare industry a vital partner and a stable component of the tourism industry in Hawai`i.

Our Aulani resort is a perfect example of the importance of the timeshare industry to Hawai`i. According to a recent economic impact study we commissioned, our Aulani resort will have a significant impact on the Hawai`i economy. Construction will generate $634 million in economic activity (including direct spending on goods and services, as well as jobs and corresponding indirect and induced impacts on the local and regional economies); $59 million in one-time tax revenues for Honolulu County and the State of Hawai`i; and 4,800 construction and construction related jobs. In addition, when our Aulani resort opens this autumn, it is expected to generate more than $271 million per year for the local economy, $33 million in annual tax revenues for Honolulu County and the State of Hawai`i and about 2,400 direct and indirect jobs. This significant investment by Disney in the State of Hawai`i was recently recognized by District Council 50 of the International Union of Painters and Allied Trades, or IUPAT, AFL-CIO, CLC, stating on the District Council's website (http://www.dc50.org/dc-50-news/2011/01/thank-goodness-for-disney/): "*A huge "Mahalo" to Disney for its foresight, belief and global ingenuity by creating a first class resort in Hawaii. Because of the Aulani resort, many of our signatory contractors . . . continue to work during this down economy! Again, thank goodness for Disney!*" Carl Bonham, Executive Director of the University of Hawai`i Economic Research Organization and Associate Professor of Economics at the University of Hawai`i at Mānoa, called Aulani "*a bright spot*" explaining that Hawai`i is "*already experiencing benefits from the creation of new construction jobs*" and that the completed resort "*will be an important addition to the O`ahu visitor industry.*" In addition, we recently hosted a very successful and well received job fair for 800 (of the eventual 1,200) job openings at the Resort. Disney has made a huge commitment to the vitality and longevity of the tourism industry and, specifically, the timeshare industry, in Hawai`i.

Disney Vacation Club opposes the proposed amendments to SB1186. The proposed amendments would increase the transient accommodations tax (TAT) rate for timeshare units from 7.25% to 9.25% from July 1, 2010, to June 30, 2015. The effect of amendments would be a 27% increase in the TAT payable by timeshare owners.

Hawai`i is the only state to assess TAT on timeshare owners, already putting Hawai`i at a competitive disadvantage. This increase to that tax will have a significant chilling effect on new timeshare projects in Hawai`i, the result of which could be the loss of future economic impacts (and future tax revenues) similar to the economic boost and tax revenues to be generated from our Aulani resort.

Timeshare owners in Hawai`i have made a long-term commitment to Hawai`i by purchasing and owning real property in Hawai`i. These owners and their guests are dependable, consistent, and stable visitors who bring substantial tax dollars to Hawai`i and continue to come even during economic downturns. They pay a yearly maintenance fee including real property taxes, GET and other fees. No other owner of real property in Hawai`i is required to pay an occupancy tax to stay in real property that they already own.

In addition, because their accommodations are already paid for, timeshare owners typically spend more dollars during their vacation than other tourists. However, their vacation dollars are limited like all other tourists. If they have to pay more in TAT tax during their visit, they will inevitably reduce their spending in Hawai`i on other things like restaurants, recreation, and souvenirs. This extreme increase in TAT tax will have the unintended consequence of reducing the dollars per person spent in Hawai`i by timeshare owners.

In 2009 timeshare owners paid over $40 million in taxes to the state through the GET and TAT. In addition to paying the TAT when an owner occupies his unit, the full TAT is paid when the unit is rented out.

It is incorrect to assume that timeshare owners are not paying their fair share of taxes as compared to hotel rooms. According to a recent analysis commissioned by the American Resort Development Association and prepared by Hospitality Advisors LLC, the statewide average total annual tax (GET, property, TAT and TOT) paid per timeshare unit is $9,920; 17% more than the statewide average total annual tax paid per hotel room: $8,500.

As drafted, this bill will unfairly impact a very specific portion of Hawai`i property owners who choose to visit Hawai`i on a regular basis and contribute significantly to Hawai`i's economy.

We believe this legislation is detrimental to timeshare owners as well as Hawai`i's tourism industry, which will only exacerbate the existing disincentive to invest in and visit Hawai`i. We respectfully ask you to hold this measure.

Thank you for allowing me to present testimony on this important matter.

Sincerely,

Todd Apo
Director, Disney Vacation Club – Hawai`i