HAWAIʻI TOURISM
AUTHORITY

Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815
kelepona tel 808 973 2255
kelepaʻi fax 808 973 2253
kahua paʻa web hawaiitourismauthority.org

Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawaiʻi Tourism Authority
on
H.B. 1359
Relating to Taxation
House Committee on Tourism
Monday, February 11, 2013
9:30 a.m.
Conference Room 312

The Hawaiʻi Tourism Authority (HTA) opposes H.B. 1359, which proposes to make the 9.25 per cent transient accommodations tax rate permanent.

While we can cautiously support making the 9.25 per cent TAT rate permanent, we favor H.B. 963, which also removes the $71 million limit on the deposits into the Tourism Special Fund. Removing of the limit will enable the HTA to invest in the following market development and experiential activities.

- Market Development: Support air access by cultivating new carriers and routes; support existing direct service and work for development of other origination points in all major market areas; increase visitor distribution to the neighbor islands; and stimulate the meetings, conventions and incentives business with a focus on high potential vertical markets.
- Experiential Development: Establish the Hawaiian Music and Dance Museum at the Hawaiʻi Convention Center; establish multiple LPGA events on multiple neighbor islands; improve the arrival and departure experience for cruise by aiding in improvements at harbors; support career development; increase Hawaiian Culture activities and initiatives throughout all programs; and expand upon existing HTA programs, events and festivals to further diversify the experiential assets of our people, place and culture.

Just increasing the TAT would negatively affect Hawaiʻi's competitive position in the marketplace by putting an additional tax on our visitors. Hawaii is a leisure destination, where the visitor's spending is discretionary and not expensed as by a business traveler. As such, our visitor market is price-sensitive, and any increase could drive a traveler to a competing destination.

This could cause us to lose momentum in the significant gains in visitor arrivals and spending experienced over the past three years. We need to ensure the continued success of our industry for the state’s economy to be sustainable.

We request that H.B. 1359 be held, and support, instead, the passage of H.B. 963, with the amendments that we have proposed.

Mahalo for the opportunity to offer these comments.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Tom Brower, Chair
and Members of the House Committee on Tourism

Date: Monday, February 11, 2013
Time: 9:30 A.M.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 1359, Relating to Taxation.

The Department supports H.B. 1359, and offers the following information and comments for your consideration.

H.B. 1359 makes the current transient accommodations tax (TAT) rate of 9.25% permanent. Allowing the transient accommodations tax rate to return to 7.25 percent would take needed funds from the general fund. While we defer to the Department of Budget and Finance on this point, it is our understanding that making the current tax rate of 9.25% permanent is built into the state's six-year financial plan.

While the Department supports this measure making the TAT rate of 9.25% permanent, the Department prefers the language in H.B. 963, which accomplishes the same while stating the rate more clearly for taxpayers.

Thank you for the opportunity to provide testimony.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Repeal sunset dates

BILL NUMBER: HB 1359

INTRODUCED BY: Luke

BRIEF SUMMARY: Repeals the sunset dates of Act 61, SLH 2009; section 2 of Act 103, SLH 2011; and Act 243, SLH 2012.

Makes a conforming amendment to HRS section 237D-2.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature by Act 61, SLH 2009, increased the TAT from 7.25% to 8.25% between 7/1/09 and 6/30/10 and to 9.25% between 7/1/10 to 6/30/15 with the proceeds attributable to the increase to be deposited into the general fund to shore up the state general fund. This measure would make the 9.25% rate permanent.

It should be remembered that in 1974, the Governor's Ad Hoc Commission on Operations Revenues and Expenditures (CORE) recommended that a tax on hotel rentals be enacted only in the case of extreme emergency as the tax would be exportable. Since that time, of course, the TAT was adopted initially to fund the building of a state convention center. However, because a site was not designated at the time of enactment, the funds from the tax flowed into the state general fund creating surpluses that became an embarrassment. When a site was finally selected, the tax rate was increased to 6% in order to provide a stable source for promotion of the visitor industry and provide subsidies for the maintenance of county infrastructure. Then during the economic contraction of the 1990's after the burst of the Japanese bubble, the rate was increased once again after a task force determined that adjustments needed to be made to the income tax to stimulate the economy and other responsibilities were shifted to the TAT. Understandably, the current financial crisis is one of those occurrences that the Commission alluded to in its report more than 30 years ago. However, making the TAT an on-going source of financing for the general fund, as proposed in this measure, will only lead to increased spending and expansion of government as the economy turns around.

While this measure would make the TAT rate of 9.25% rate permanent, it should be remembered that the TAT actually hurts those who depend on the discretionary spending of visitor dollars. Lodging and its attendant taxes must be paid before there is one dollar to spend on souvenirs, tours, entertainment, and food. Thus, hiking the TAT rate merely hurts the small businesses dependent on visitors' discretionary spending.

While it may be argued that TAT dollars are being paid by visitors to Hawaii, it should be remembered that for every dollar that is spent to pay the TAT obligation, it is one less dollar that is spent in the state's economy. It is one less pair of slippers purchased or one less restaurant meal or one less catamaran ride taken by the visitors. So in the larger sense, these are not "free" dollars, but dollars that could be flowing back into the economy to generate additional income for Hawaii's people and creating additional jobs for the community.

Finally, some argue that they pay much higher occupancy tax rates in other jurisdictions of the country. For those critics there are three facts that must be recognized. First, much as visitor officials try, Hawaii is still viewed as a leisure destination, in competition for discretionary dollars of travelers who have a variety of destinations from which to choose for their vacations. Second, Hawaii is challenged in that it is the most remote inhabited place on earth and, therefore, the most costly in the sense of time expended to reach paradise at a minimum of five hours of travel. And third, except for those places that are not leisure destinations like New York, Chicago or San Francisco where room rates are competitive with those charged for Hawaii rooms, higher occupancy rates are largely attributable to the fact that room rates are lower. As a result, where those hotel room rates are higher than Hawaii's TAT rates, the absolute dollar amount produced will be lower because the average room rate is lower than those found in Hawaii. Thus, hotel room rates are not comparable because the base against which they are applied is incongruous.

More importantly, lawmakers should remember that a "deal" was made with the industry that the increase was to be temporary to help the state during the recent difficult economic situation. To now go back on its word, even though that past legislature is different from the current, certainly questions the integrity of the policymaking body. Reneging on that promise sends a loud message that the legislature is not to be trusted and is a body that does not honor its word. Voters have every right to be cynical of any action taken by the legislature. Remembering what the 1974 CORE report recommended, the current TAT rate should be allowed to sunset and return to 7.25% and any increase in the future should be reserved for emergency situations.

The legislature by Act 103, SLH 2011, restricted the amount of the TAT deposited into the tourism special fund between July 1, 2011 and June 30, 2015 to $69 million so that additional revenue would be deposited in the state's general fund to address the state's dire financial condition. The Act also provides that the total amount of TAT revenues transferred to the counties shall not exceed $93 million between July 1, 2011 and June 30, 2015. These restrictions of the distribution of TAT revenues were enacted to provide additional revenues to the state's general fund until June 30, 2015. While this measure would repeal that limitation before June 30, 2015, it is questionable whether the financial condition of the state general fund and accompanying state spending can sustain the enactment of this measure.

Act 243, SLH 2012, provided that distributions of the TAT to the convention center enterprise special fund shall be made on a fiscal year basis rather than on a calendar year basis. Prior to the adoption of Act 243 TAT revenues are distributed to the convention center enterprise special fund on a calendar year basis while expenditures from the fund were made on a fiscal year basis. Act 243 provided that the distribution of TAT revenues be on a fiscal year basis in alignment with the payment of expenditures in accordance with the state's financial year.

Digested 2/7/13

Maui Hotel & Lodging
ASSOCIATION

Testimony of
Lisa H. Paulson
Executive Director
Maui Hotel & Lodging Association
on
HB1359
Relating To Transient Accommodations Tax

COMMITTEE ON TOURISM
Monday, February 11, 2013, 9:30am
Room 312

The Maui Hotel & Lodging Association (MHLA) is the legislative arm of the visitor industry. Our membership includes over 140 property and allied business members in Maui County – all of whom have an interest in the visitor industry. Collectively, MHLA's membership employs over 20,000 local residents.

MHLA opposes HB1359 which makes permanent the additional increase on the gross rental or gross rental proceeds derived from furnishing transient accommodations and the requirement that the revenues collected be deposited into the general funds.

The visitor industry is the economic driver for Maui County. We are the largest employer of residents on the Island - directly employing approximately 40% of all residents (indirectly, the percentage increases to 75%).

In 2009, the state government raised the TAT with a 1% increase effective July 1, 2009, and an additional 1%, 2010. Since the July 1, 2010, guests and locals have paid a TAT of 9.25%. Coupled with the GET, guests pay a 13.41% tax on Maui. Based on the annual average cost of a hotel room and the 13.41% tax rate, the average tax bill is $32 per night. This is more than double the average nightly room tax in the United States, and the highest tax rate in the country for Visitor destinations.

Hawaii has reached the point where added taxes hurt business. This can be demonstrated in two ways. First, destinations with the highest room taxes are business destinations like New York, Washington, D.C., San Francisco, Chicago and Seattle. In these destinations, most travelers are not paying the hotel themselves but rather charging it to their businesses. In resort destinations like Hawaii, our competitor's tax rates are lower (e.g. San Diego, 10.5%; Orlando, 12.5%) These destinations also have lower room rates due to lower costs of doing business, thus leading to even lower rates for customers. The cost of doing business and the tax rates are increasingly making it more difficult to be competitive and for businesses to be profitable.

continued on following page

Furthermore, shortly after the TAT was first proposed, it was supported by the industry as a replacement to the unpredictable "grant in aid" process that funneled state dollars to the counties. Its purpose was to support the counties in maintaining visitor serving infrastructure. There was no cap. Over the past few legislative sessions, that initial intent has been lost and it has largely become a vehicle to fuel the general fund.

We urge you to oppose HB1359.

Thank you for the opportunity to testify.

1727-B Wili Pa Loop • Wailuku, HI 96793 • 808/244-8625 • 808/244-3094 fax • info@mauihla.org