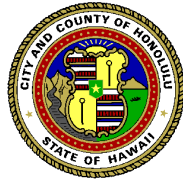


**OFFICE OF THE MAYOR**  
**CITY AND COUNTY OF HONOLULU**

530 SOUTH KING STREET, ROOM 300 \* HONOLULU, HAWAII 96813  
PHONE: (808) 768-4141 \* FAX: (808) 768-4242 \* INTERNET: [www.honolulu.gov](http://www.honolulu.gov)



KIRK CALDWELL  
MAYOR

EMBER LEE SHINN  
MANAGING DIRECTOR DESIGNATE

GEORGETTE T. DEEMER  
DEPUTY MANAGING DIRECTOR

TESTIMONY OF KIRK CALDWELL, MAYOR  
CITY AND COUNTY OF HONOLULU  
BEFORE THE HOUSE  
COMMITTEE ON TOURISM  
Monday, February 11, 2013, 9:30 a.m., Conference Room 312

**HOUSE Bill 963 RELATING TO TRANSIENT ACCOMMODATIONS TAX**

**Position: Comment**

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

The City & County of Honolulu respectfully submits comments regarding House Bill 963, "Relating to Transient Accommodations Tax", which proposes to eliminate the sunset of the Transient Accommodations Tax rate of 9.25 per cent, and also eliminates the sunset date for the amounts to be distributed to the tourism special fund and the counties.

While we support the elimination of the sunset clause, we request that the counties' share remain at 44.8%, and not be reduced to 35.1%. We also request that the \$93 million dollar cap be removed.

Each fiscal year, the City & County of Honolulu relies on receiving its share of the TAT in order to sustain its basic City operations. For example, the City's FY13 Proposed Operating Budget projected \$41 million in TAT revenue from the state. Any decrease in this amount would adversely affect our ability to serve the public.

The issue here is fairness and equity. In FY 2012, the City & County of Honolulu generated \$257.2 million, or 79.4%, of the total \$323.9 million of TAT collected. With the cap imposed in FY 2012, Honolulu only received \$41 million in TAT revenues, which is about 12.7%. Furthermore, the City & County of Honolulu expends a significant amount of its resources to support our tourism industry. Services we provide include ocean safety, park maintenance, police protection, fire protection, bus services, and infrastructure repair and maintenance. The City also provides attractions and activities, such as the Honolulu Zoo, the Hanauma Bay Preservation Park, Royal Hawaiian Band performances, and our municipal golf courses. In FY 2012 the City spent approximately \$74.1 million on visitor industry services, yet only received \$41 million in TAT. The current \$93 million dollar cap, as well as the proposed decrease in the counties share, will prohibit the City & County of Honolulu from receiving a fair compensation for the services it provides.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact me at 768-4141.

Council Chair  
Gladys C. Baisa

Vice-Chair  
Robert Carroll

Council Members  
Elle Cochran  
Donald G. Couch, Jr.  
Stacy Crivello  
Don S. Guzman  
G. Riki Hokama  
Michael P. Victorino  
Mike White



Director of Council Services  
David M. Raatz, Jr., Esq.

**COUNTY COUNCIL**  
COUNTY OF MAUI  
200 S. HIGH STREET  
WAILUKU, MAUI, HAWAII 96793  
[www.mauicounty.gov/council](http://www.mauicounty.gov/council)

February 8, 2013

TO: The Honorable Tom Brower, Chair  
House Committee on Tourism

FROM: Gladys C. Baisa *GB*  
Council Chair

SUBJECT: **HEARING OF FEBRUARY 11, 2013; TESTIMONY IN OPPOSITION TO HB 963,  
RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Thank you for the opportunity to testify in opposition to this important measure. The purpose of this measure is to eliminate the sunset of the Transient Accommodations Tax ("TAT") rate of 9.25 per cent, and also eliminate the sunset date for the amounts to be distributed to the tourism special fund and the counties.

The Maui County Council has not had the opportunity to take a formal position on this measure. Therefore, I am providing this testimony in my capacity as an individual member of the Maui County Council.

I oppose this measure for the following reasons:

1. There is a clear correlation between the visitors' impact on county infrastructure and returning a fair share of the county-earned TAT revenue to the respective county government. As Maui County continues to see a rise in visitor counts, I am concerned that any reduction to the current distribution of TAT could hinder the County's ability to fully participate in any economic recovery experienced by the State.
2. Reducing the amount of TAT distributed to the counties would create an unfair imbalance as costs associated with an increase in visitor counts within a county would not be offset by a corresponding increase in revenues to that county. If the distribution of TAT does not correspond with rising visitor counts, any increase in infrastructure and public safety costs will undoubtedly fall to the counties.
3. Maui County's primary source of revenue is derived from real property taxes. Therefore, any reduction to the current allocation of TAT revenues distributed to Maui County could unfairly burden real property tax payers.

For the foregoing reasons, I oppose this measure.

**brower1-Dean**

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 05, 2013 11:08 AM  
**To:** TOUtestimony  
**Cc:** Don.Couch@mauicounty.us  
**Subject:** \*Submitted testimony for HB963 on Feb 11, 2013 09:30AM\*

**HB963**

Submitted on: 2/5/2013

Testimony for TOU on Feb 11, 2013 09:30AM in Conference Room 312

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Councilmember Don Couch	Individual	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)

Council Chair  
Gladys C. Baisa

Vice-Chair  
Robert Carroll

Council Members  
Elle Cochran  
Donald G. Couch, Jr.  
Stacy Crivello  
Don S. Guzman  
G. Riki Hokama  
Michael P. Victorino  
Mike White



Director of Council Services  
David M. Raatz, Jr., Esq.

**COUNTY COUNCIL**  
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200 S. HIGH STREET  
WAILUKU, MAUI, HAWAII 96793  
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February 8, 2013

TO: Honorable Tom Brower, Chair  
House Committee on Tourism

FROM: Robert Carroll  
Council Member, East Maui

A handwritten signature in cursive script that reads "Robert Carroll".

DATE: Hearing date Monday, February 11, 2013

SUBJECT: **OPPOSE HB 963, RELATING TO TRANSIENT ACCOMMODATIONS TAX**

I oppose HB 963 for the reasons cited in testimony submitted by the Maui County Council Chair, and urge you to support this measure.

Council Chair  
Gladys C. Baisa

Vice-Chair  
Robert Carroll

Council Members  
Elle Cochran  
Donald G. Couch, Jr.  
Stacy Crivello  
Don S. Guzman, Esq.  
G. Riki Hokama  
Michael P. Victorino  
Mike White



Director of Council Services  
David M. Raatz, Jr., Esq.

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[www.maui-county.gov/council](http://www.maui-county.gov/council)

February 8, 2013

TO: The Honorable Tom Brower, Chair  
House Committee on Tourism

FROM: G. Riki Hokama *GRH*  
Maui County Councilmember/Lanai seat

**SUBJECT: Testimony in Opposition to HB 963 relating to Transient Accommodations Tax (Public Hearing on February 11, 2013 at 9:30 pm in House Conference Room 312)**

As the Lanai member on the Maui County Council, I would like to offer testimony in opposition to the subject bill. This measure eliminates the sunset of the Transient Accommodations Tax (TAT) rate of 9.25 percent and also eliminates the sunset date for the amounts to be distributed to the tourism special fund and the counties.

I concur with testimony in opposition submitted by Maui County Council Chair, Gladys Baisa. A major objection is the reduction in the county's share of the TAT. For Maui County, the TAT is an important source of revenues to maintain public services and infrastructure that are used by our visitors.

Thank you for the opportunity to offer this testimony in opposition.

cc: Maui County Council Chair Gladys Baisa



February 11, 2013

The Honorable Tom Brower, Chair  
and Members of the House Committee on Tourism  
Hawai'i State Capitol  
415 South Beretania Street, Room 312  
Honolulu, Hawai'i 96813

RE: House Bill 963, RELATING TO TRANSIENT ACCOMODATIONS TAX

Aloha, Chair Brower and Committee Members:

The Hawai'i Council of Mayors, which includes the mayors of Hawai'i, Honolulu, Kaua'i and Maui counties, strongly opposes any effort to make permanent the temporary cap on the counties' share of transient accommodation tax revenue (TAT) put in place in 2011. The Hawai'i Council of Mayors also opposes any effort to reduce the counties' proportionate share of the TAT.

The cap was always understood to be a temporary measure to assist the state with a temporary budget shortfall, with a sunset in 2015. Now that the state economy is recovering and state transient accommodations tax collections are climbing to record levels, there is no further justification for the cap. We respectfully ask that the committee remove the cap on the counties' share of TAT revenues.

From the very beginning of the transient accommodations tax, the counties were always intended to receive a proportionate share of TAT revenue because the counties provide the bulk of services used by visitors. Arbitrarily reducing the counties' share of the tax increases the burden of mass tourism on the counties and our residents.



**Mayor William Kenoi**  
County of Hawaii  
25 Aupuni Street  
Hilo, Hawaii 96720



**Mayor Kirk Caldwell**  
City and County of Honolulu  
530 South King Street  
Honolulu, Hawaii 96813



**Mayor Bernard Carvalho, Jr.**  
County of Kauai  
4444 Rice Street  
Lihue, Hawaii 96766



**Mayor Alan Arakawa**  
County of Maui  
200 South High Street, 9<sup>th</sup> Floor  
Wailuku, Hawaii 96793

The Honorable Tom Brower

Page 2

February 11, 2013

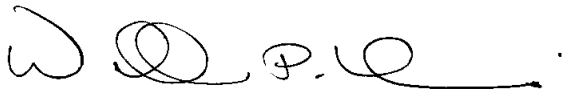
The costs of providing county services to visitors are always increasing. Normally, as tourism increases there is also an increase in county collections from the TAT to help offset some of the escalating costs from the influx of record numbers of visitors. If the TAT cap is made permanent, that will leave the counties to forever absorb the additional cost of ever-growing numbers of visitors.

This is not sustainable. Reducing the counties' share of TAT revenues leaves the counties with no way to cope with the ever increasing costs of sewer, police, fire, lifeguards and other services the counties must provide to serve ever-growing numbers of visitors. If the TAT cannot cover sufficiently the cost of those services, the services will have to be reduced or the facilities will deteriorate. This will create a less favorable environment for visitors and residents alike. The counties cannot raise property taxes to cover those constantly increasing costs without bankrupting local resident taxpayers.

For those reasons, we respectfully ask that the committee lift the cap on the counties' share of the TAT and maintain the counties' proportionate share of the proceeds.

Thank you for your consideration.

Sincerely,



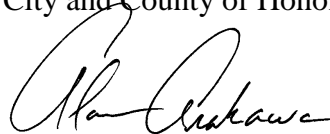
William Kenoi, Mayor  
County of Hawai'i



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



Kirk Caldwell, Mayor  
City and County of Honolulu



Alan Arakawa, Mayor  
County of Maui



Hawai'i Convention Center  
1801 Kalākāua Avenue, Honolulu, Hawai'i 96815  
**kelepona** tel 808 973 2255  
**kelepa'i** fax 808 973 2253  
**kahua pa'a** web [hawaii-tourism-authority.org](http://hawaii-tourism-authority.org)

**Neil Abercrombie**  
*Governor*

**Mike McCartney**  
*President and Chief Executive Officer*

Testimony of  
Mike McCartney  
President and Chief Executive Officer  
Hawai'i Tourism Authority  
on  
**H.B. 963**  
**Relating to Transient Accommodations Tax**  
House Committee on Tourism  
Monday, February 11, 2013  
9:30 a.m.  
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports H.B. 963, with amendments. H.B. 963 proposes to make the 9.25 per cent transient accommodations tax rate permanent and also make permanent the limits on deposits into the Tourism Special Fund and the amounts transferred to the counties.

An increase to the TAT would negatively affect Hawai'i's competitive position in the marketplace by putting an additional tax on our visitors. 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.

Unlike other destinations with higher hotel room taxes, which host more business travelers, 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. Our market is affected by the price of accommodations, the price of fuel, the long travel time to reach our destination, or, in the case of Japan, the devaluing of the yen.

Currently, the visitor industry supports more than 166,000 jobs and we anticipate this number to grow this year. However, we are still well below the peak of more than 178,000 jobs in 2005, and the TAT increase could cause a loss of jobs in the tourism sector.

While we can cautiously support a 9.25 per cent TAT rate, the bill must be amended to remove the limit on the deposits into the Tourism Special Fund. The removal of the limit will enable the HTA to invest in the following market development and experiential activities. This investment will result in increasing the existing \$1.553 billion in state tax revenue.



- 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 Hawai'i 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.

We request that SECTION 2 of the bill be amended to have paragraph (b)(2) read as follows:

- “(2) ~~[34.2] 23.5~~ per cent of the revenues collected under this chapter shall be deposited into the tourism special fund established under section 201B-11 for tourism promotion and visitor industry research; ~~[provided that for any period beginning on July 1, 2012, and ending on June 30, 2015, no more than \$71,000,000 per fiscal year shall be deposited into the tourism special fund established under section 201B-11;]~~ provided ~~[further]~~ that beginning on July 1, 2012, and ending on June 30, 2015, \$2,000,000 shall be expended from the tourism special fund for development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii; and provided further that beginning on July 1, 2002, of the first \$1,000,000 in revenues deposited:
- (A) Ninety per cent shall be deposited into the state parks special fund established in section 184-3.4; and
- (B) Ten per cent shall be deposited into the special land and development fund established in section 171-19 for the Hawaii statewide trail and access program;
- provided that of the ~~[34.2] 23.5~~ per cent, 0.5 per cent shall be transferred to a sub-account in the tourism special fund to provide funding for a safety and security budget, in accordance with the Hawaii tourism strategic plan 2005-2015; provided further that of the revenues remaining in the tourism special fund after revenues have been deposited as provided in this paragraph and except for any sum authorized by the legislature for expenditure from revenues subject to this paragraph, beginning July 1, 2007, funds shall be deposited into the tourism emergency trust fund, established in section 201B-10, in a manner sufficient to maintain a fund balance of \$5,000,000 in the tourism emergency trust fund; and”

Mahalo for the opportunity to offer these comments and for your consideration to adjust the \$71 million cap to 23.5% of TAT collected. The result is intended to provide increased tax revenue to the state.



HAWAII LODGING & TOURISM

ASSOCIATION

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Honolulu, HI 96815  
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Fax: (808) 924-3843  
E-Mail: [hlla@hawaiihotels.org](mailto:hlla@hawaiihotels.org)  
Website: [www.hawaiihotels.org](http://www.hawaiihotels.org)



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**TESTIMONY OF GEORGE SZIGETI  
PRESIDENT & CEO  
HAWAII LODGING & TOURISM ASSOCIATION**

**February 11, 2013**

**RE: HB963 Relating to the Transient Accommodations Tax**

Good morning Chair Brower, Vice Chair Cachola, and members of the House Committee on Tourism. I am George Szigeti, President & CEO of the Hawaii Lodging & Tourism Association.

The Hawaii Lodging & Tourism Association is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms and individuals. Our membership includes over 150 lodging properties representing over 48,000 rooms. Our lodging members range from the 3,499 rooms of the Hilton Hawaiian Village Waikiki Beach Resort to the 4 rooms of the Bougainvillea Bed & Breakfast on the Big Island.

The Hawaii Lodging & Tourism Association we oppose the elimination of the sunset of the 2% Transient Accommodation Tax increase. While we recognized that the State was facing serious budget problems in 2009 and that increase of the TAT would address these issues, it was not going to be a permanent increase. Although Hawaii has seen an increase in visitor counts and spending, we are also facing other factors that affect the cost of visiting Hawaii. This includes increase in government fees and permits, utilities, fuel and more. Although hotel room rates have risen slightly, they are not at the rates we saw in 2007. We have to be sure we continue to keep Hawaii a strong destination.

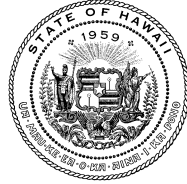
Competing destinations like New York City, Washington D.C., San Francisco, Chicago and Seattle also have high room tax rates and most travelers are not paying the hotel bill themselves while staying in these destinations but rather charging it to their business. On the contrary, Hawaii's visitors are on vacation and are personally responsible for that what is incurred on their hotel bill. Furthermore, in resort destinations similar to Hawaii, our competitor's tax rates are usually lower. All of these destinations also have lower room rates due to lower cost of doing business thus leading to even lower tax bills for the customer. The cost of doing business and the cost of taxes are increasingly making us less competitive.

We need to continue to be able to have a strong marketing capability to remain competitive. Destinations like Mexico, the Caribbean and Puerto Rico offer the same sun, sand and surf for less. We have seen that strong marketing of our islands also helped us survive a tourism downturn when Japan was hit by the tsunami a few years ago. Through the strong marketing efforts of the HTA and Hawaii Visitors & Convention Bureau (HVCB), visitors from other markets made up the downturn from Japan.

The visitor industry continues to be the strong economic engine for the state of Hawaii. We have to ensure that it remains strong and healthy. I appreciate this opportunity to testify.

**NEIL ABERCROMBIE**  
GOVERNOR

**SHAN TSUTSUI**  
LT. GOVERNOR



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

**FREDERICK D. PABLO**  
DIRECTOR OF TAXATION

**JOSHUA WISCH**  
DEPUTY DIRECTOR

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. 963, Relating to Transient Accommodations Tax.

The Department supports H.B. 963, and offers the following information and comments for your consideration.

H.B. 963 makes the current transient accommodations tax (TAT) rate of 9.25% and the current allocations of revenues under Chapter 237D of the Hawaii Revised Statutes (HRS) permanent. The measure also repeals the complimentary rooms of \$10 per day.

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.

Changing the wording in section 237D-2, HRS, to state the rate simply will make it easier for taxpayers to understand, and the complementary changes to section 237D-6.5, HRS, ensure that the way revenue is remitted under TAT law does not substantially change. The Department supports repealing the complimentary room tax because it is difficult to administer and generates little revenue.

Thank you for the opportunity to provide testimony.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** TRANSIENT ACCOMMODATIONS, Make rate permanent; increase disposition to general fund

**BILL NUMBER:** SB 1194; HB 963 (Identical)

**INTRODUCED BY:** SB by Kim by request; HB by Souki by request

**BRIEF SUMMARY:** Amends HRS section 237D-2 to make the temporary increase in the transient accommodation tax (TAT) rate of 9.25% permanent. Eliminates the imposition of the TAT on complimentary rooms.

Amends HRS section 237D-6.5 to provide that TAT revenues shall be allocated as follows: (1) 13.6% shall be deposited into the convention center enterprise special fund; (2) 26.8% deposited into the tourism special fund; and (3) 35.1% shall be transferred to the various counties, with any remaining revenues deposited into the general fund.

**EFFECTIVE DATE:** July 1, 2013

**STAFF COMMENTS:** This is an administration measure submitted by the department of taxation TAX-13(13). 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. While this measure makes the 9.25% rate permanent and alters the disposition of TAT revenues, it appears that the amount of revenues deposited into the general fund upon the enactment of this measure is a significant increase.

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 the 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, provided that a minimum tax of \$10 was to be imposed on transient accommodations provided on a complimentary or gratuitous basis. This measure proposes to repeal that imposition because the department of taxation has found this provision difficult to administer and the imposition of the minimum tax has generated little revenue. More importantly, the "minimum" rate runs counter to the underlying philosophy that the TAT is a tax on the gross income for the rental of a transient accommodation as opposed to a per unit rate that the minimum rate represents.

Digested 2/1/13

**Testimony to the House Committee on Tourism  
Monday, February 11, 2013 at 9:30 A.M.  
Conference Room 312, State Capitol**

**RE: HOUSE BILL 963 RELATING TO TRANSIENT ACCOMMODATIONS TAX**

Chair Brower, Vice Chair Cachola, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **opposes** HB 963 Relating to Transient Accommodations Tax.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber opposes making permanent the tax increase on transient accommodations. We understand that the temporary increase was necessary to address the budget shortfall during the recession, but we do not believe it should be made permanent. Now that tax revenue is stable and growing we believe that the tax should revert back to the 7.25% rate.

We also oppose the reduction of funds going into the tourism special fund. Funding for visitor marketing and promotions is critical to both the visitor industry, and Hawaii's overall economy. It is the strong marketing and branding program which help the tourism sustain itself during the recession.

We also have some concerns that the reduction to the counties is being made permanent in this bill. This may lead counties to look for other revenue sources that may impact business, taxpayers and our community.

Thank you for this opportunity to express our views.



*Maui Hotel & Lodging*  
ASSOCIATION

Testimony of  
**Lisa H. Paulson**  
Executive Director  
Maui Hotel & Lodging Association  
on  
**HB963**  
**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 HB963 which eliminates the sunset of the Transient Accommodations Tax rate of 9.25 per cent, and also eliminates the sunset date for the amounts to be distributed to the tourism special fund and the counties.

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.

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Furthermore, we are in strong opposition to any proposal to make permanent the temporary cap on the counties' share of transient accommodation tax revenue (TAT). Permanently capping the amount of TAT funding distributed to the counties will leave the counties without the necessary resources to provide essential services to our residents or support for the visitor industry in the years ahead.

We urge you to oppose HB963.

Thank you for the opportunity to testify.



Twenty-Seventh Legislature  
Regular Session of 2013

HOUSE OF REPRESENTATIVES

Committee on Tourism

Rep. Tom Brower, Chair

Rep. Romy M. Cachola, Vice Chair

State Capitol, Conference Room 312

Monday, February 11, 2013; 9:30 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 963  
RELATING TO TRANSIENT ACCOMMODATION TAX**

The ILWU Local 142 supports the intent of H.B.963, which eliminates the sunset of the Transient Accommodations Tax (TAT) rate of 9.25 per cent and eliminates the sunset date for the amounts to be distributed to the tourism special fund and the counties.

A TAT of 9.25 per cent is reasonable and is what visitors and the industry have been accustomed to for the past two years as Hawaii's economy recovered from the Great Recession. Repeal of the sunset is appropriate.

However, reducing the amounts to the Tourism Special Fund and the counties may not be appropriate. Tourism is the engine that drives the private sector in our state, regardless of efforts to diversify the economy. Funds to support promotion of tourism to Hawaii must be available to ensure that visitor dollars come to Hawaii rather than to other tropical destinations.

In addition, monies to the counties should not be limited. We are a state, albeit on six major islands. Tourism should be promoted for all islands, which means all islands will need the infrastructure to support visitors coming to their islands. Counties will need funds to support roads, parks, sewers, and water systems to make the visitor experience more enjoyable, yet their main source of revenue is property taxes, which has its own limits.

The ILWU urges passage of H.B. 692 with the removal of caps on distribution of TAT funds to the Tourism Special Fund and the counties. Thank you for the opportunity to provide testimony on this matter.



# WAIKĪKĪ IMPROVEMENT ASSOCIATION

Statement of  
**Rick Egged, President, Waikiki Improvement Association**  
Before the  
**HOUSE COMMITTEE ON TOURISM**  
Monday, February 11 2013, 9:30 AM  
State Capitol, Conference Room 312  
in consideration of

## **RE: HB 963 & 971 Relating to Transient Accommodations Tax**

Good morning Chair Brower, Vice Chair Cachola and members of the Committee:

I am Rick Egged testifying on behalf of the Waikiki Improvement Association. WIA is a nonprofit organization representing 150 leading businesses and stakeholders in Waikiki.

2012 was a record setting year for the visitor industry and 2013 has started strong as well. That is the good news but it does not mean we can feel comfortable that we need do nothing more than stay the course. The strong demand over the last few years are due to several major factors. The first of which is of course a favorable exchange rate that has lowered the cost of a Hawai'i stay. The exchange rate has of late been moving in the wrong direction.

Second increased airlift and hopefully this will continue to improve. HTA deserves a lot of credit for leading our efforts to increase airlift. Having our own regional airline, Hawaiian Airlines, is another major element in that increase.

The third major factor is investment in our product. The revitalization of Waikiki is a huge success story. From 2001 to 2012 over three billion dollars in private funds have redeveloped large portions of Waikiki. Although the construction of major projects in Waikiki continues there are still areas that remain in need of redevelopment. Over \$100 million dollar of City and State mostly City funds have gone into the parks, roads and sewers of Waikiki. Continued reinvestment in Waikiki is crucial to maintaining our competitiveness.

In addition to the structural improvements, Oahu has built a solid offering of cultural and sporting events spread throughout the year that bring millions to our state.

Another major factor is that the marketing efforts of the state with the leadership of the Hawaii Tourism Authority and the Hawai'i Visitors and Convention Bureau have been the best we have ever had.

But this success is fragile. If we don't continue to make advances, expand our marketing horizons, increase our research and improve our cultural and sports offerings we will inevitably slip. In the highly competitive business of tourism if we are not constantly improving our product and marketing Hawaii will lose ground.

The HTA budget should be allowed as originally intended to grow along with TAT collections. The additional funds can go to supporting increased lift, enhancing existing events, marketing those events and activities, more research on what works and does not work in both our product and marketing.

Increasing the TAT by an additional 2% is not just a bad idea it is a potential disaster. Although visitor arrivals and spending are at record levels, hotel bottom lines are still stressed. Other testifiers have provided more detail but costs particularly payroll and energy costs have continued to rise while hotel ADR's as of 2012 are still slightly below inflation adjusted historic levels.

Hotel room rates are flexible, when demand is good they go up, when demand slacks they go down to attract more visitors. Raising the combined TAT and GET tax rate to over 15% makes it among the highest in the nation. The high tax rate reduces our responsiveness to market demand.

Additionally the high tax rate and resulting loss in competitiveness will be a drag on future investment. The building and renovation is not only necessary to fuelling visitor demand but also to providing thousands of construction industry jobs and of course the resulting taxes.

Increasing taxes to levels among the highest in the nation has the potential of crippling Hawai'i's visitor industry in the years to come.

Thank you for this opportunity to provide these comments on these important issues.