

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

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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, March 18, 2013, 9:35 a.m., Conference Room 312

SENATE Bill 1194 SD2, "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 Senate Bill 1194 SD2, "Relating to Transient Accommodations Tax", which proposes to eliminate the sunset date of the Transient Accommodations Tax rate of 9.25 %, and also decreases the amounts to be distributed to the convention center enterprise special fund, 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.

It was recently reported that Hawaii's hotel industry set new records for average room rates and total revenue. In 2012 hotel operators earned \$4.81 billion, which is an all-time high for annual revenues. Furthermore, industry experts are anticipating statewide occupancy rates will continue to grow in 2013.

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.

City & County of Honolulu TAT Revenues Generated and Received

79.4%



Generated: \$257.2 Million

Oahu generated \$257.2 million or 79.4% of the total \$323.9 million of TAT collected in FY 2012.

12.7%

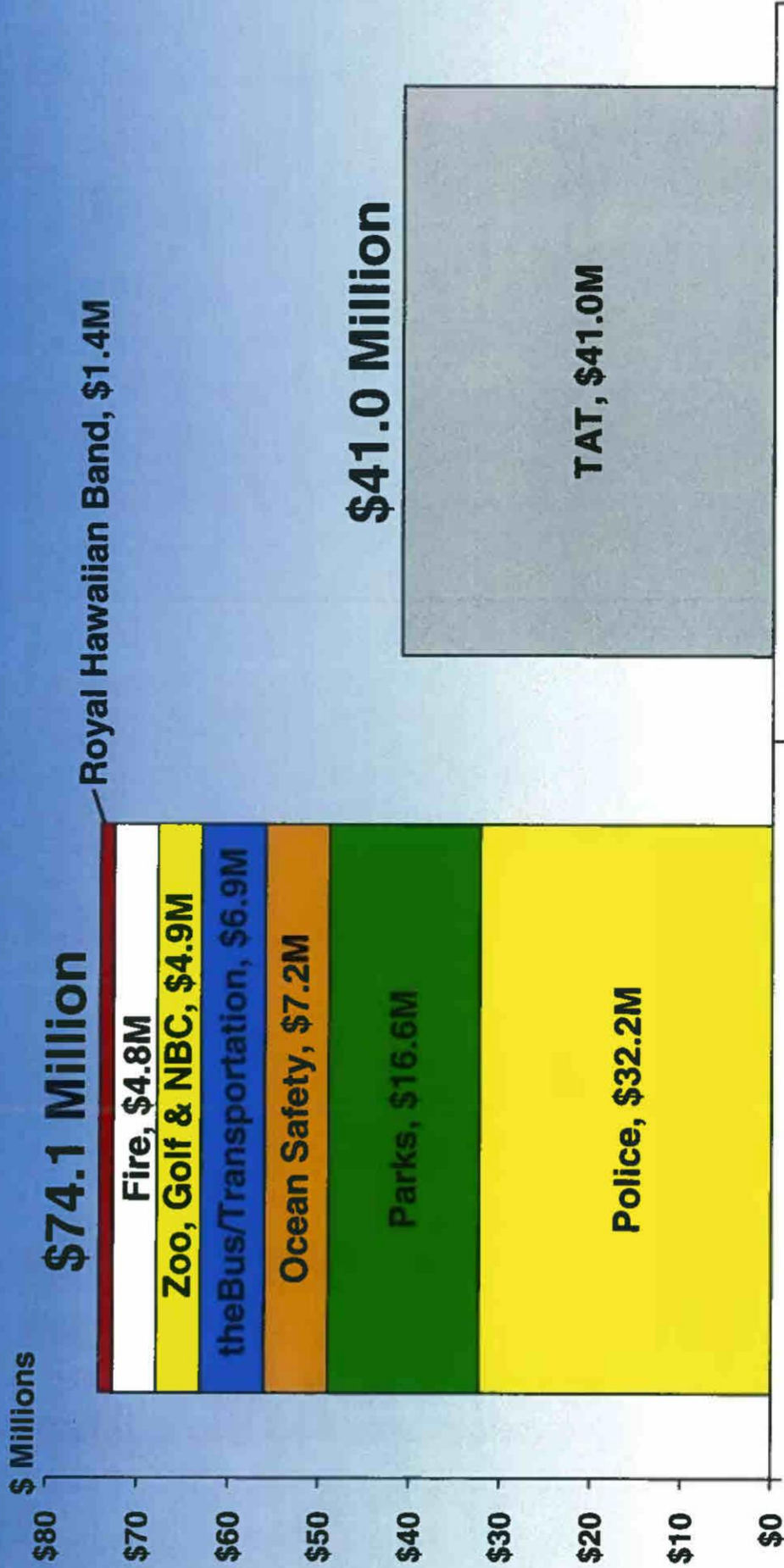


Received: \$41.0 Million

With the cap imposed in FY 2012, Honolulu receives only 12.7%.



City & County of Honolulu Visitor Industry Services



Visitor Costs

TAT

Note: The figures above do not include debt service.

Star Advertiser

Sunday, March 10, 2013

Visitor growth prompts warning

Hawaii's fortunes could reverse if it does not add more accommodations as tourism surges, some experts say

By Allison Schaefer
aschaefer@staradvertiser.com

Will and Kim Parsons of Canberra, Australia, were in Honolulu Tuesday for a business meeting. They had just returned from Las Vegas, where they were surprised by Waikiki's crowded conditions. "It's been consistently busy," Kim Parsons said. The Hawaii Tourism Authority said last week that it expects visitor spending will hit \$15.8 billion this year when 500,000 more visitors arrive than did last year, bringing total arrivals to 8.5 million. The new forecast is a benchmark that some, including economist Paul Brewbaker,

warns puts the state at risk of filling its hotel rooms to capacity and constraining future tourism growth.

"The party's already over, you just don't know it," said Brewbaker, who as principal of TZEconomics has been sparking controversy at recent economic forums.

Brewbaker theorizes Hawaii's tourism industry is running out of headroom and that state officials are overlooking the long-term consequences of over-reliance on accommodations. Brewbaker's sustainability work focuses on the

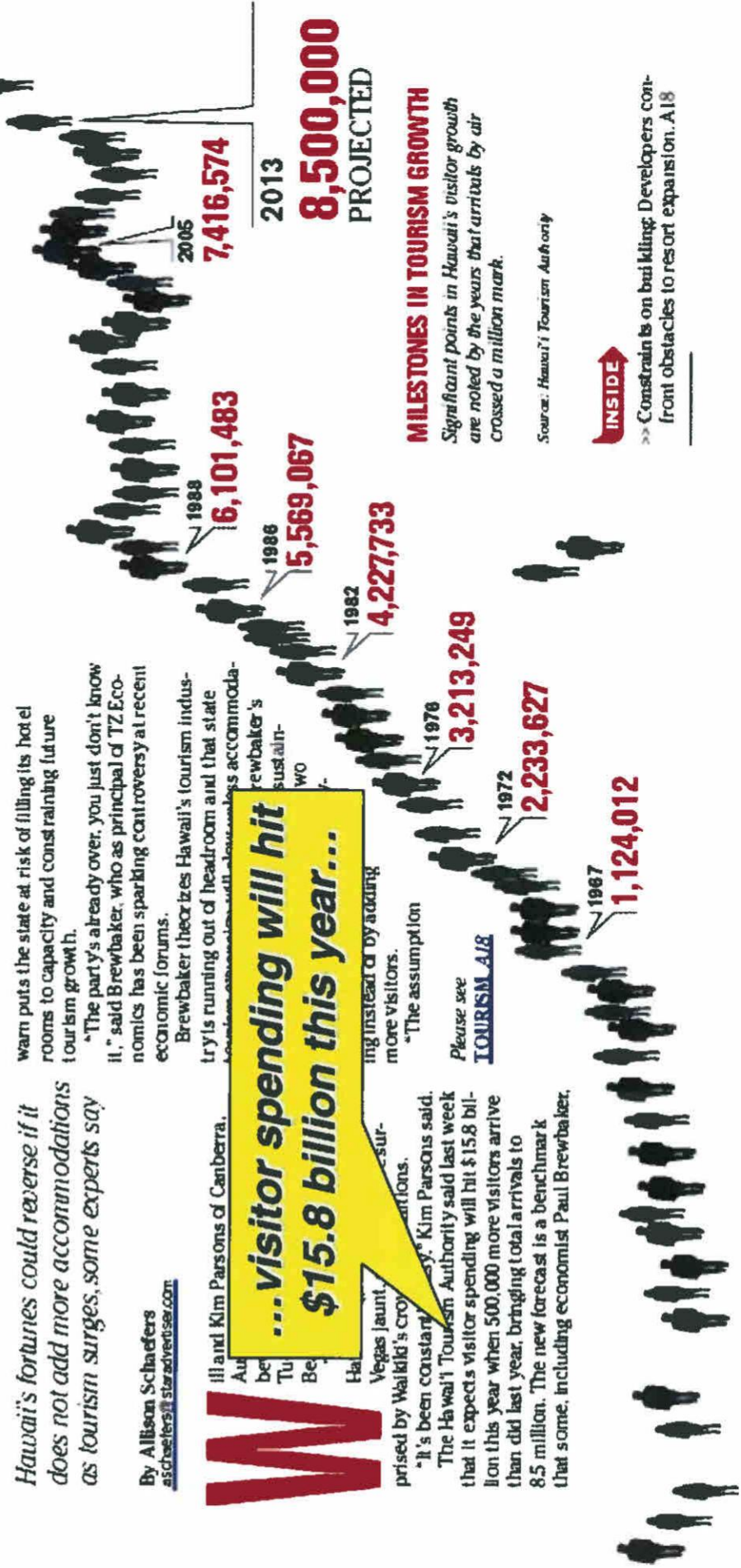
... visitor spending will hit \$15.8 billion this year...

ing instead of by adding more visitors.

"The assumption

Please see

TOURISM A18



MILESTONES IN TOURISM GROWTH
 Significant points in Hawaii's visitor growth are noted by the years that arrivals by air crossed a million mark.

Source: Hawaii Tourism Authority

INSIDE

>> Constrain is on building: Developers confront obstacles to resort expansion. A18

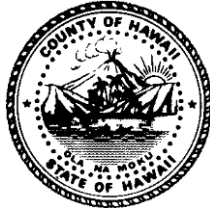
Star Advertiser

Friday, March 15, 2013

SURGE PREDICTED FOR AIRLINE SEATS

Isle tourism officials' forecast for the next three months sees international flights leading an 11.8% increase >> B1

William P. Kenoi
Mayor



Walter K.M. Lau
Managing Director

Randall M. Kurohara
Deputy Managing Director

County of Hawai'i Office of the Mayor

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March 18, 2013

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

Re: Senate Bill 1194 SD2, RELATING TO TRANSIENT ACCOMODATIONS TAX

Aloha, Chair Brower and Committee Members:

Thank you for this opportunity to express our 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.

From the time of the establishment of the TAT in 1986, the Legislature planned to make the Counties beneficiaries of the hotel room tax because lawmakers recognized the importance of county facilities and services to support and enhance the visitor experience. It was always understood that the costs of mass tourism are mostly carried by the counties.

When a visitor calls for law enforcement help, a county police officer responds. When the visitor gets into trouble in the ocean, county lifeguards or firefighters respond. When the visitor uses sewer and water service, those are county services. The visitors drive on county roads, and use county parks. As the visitor count grows, the visitors' demands on county resources also grow.

The Honorable Tom Brower

Page 2

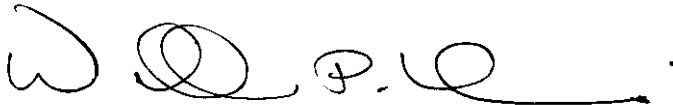
March 18, 2013

We now have more than one million tourists a year visiting the County of Hawai'i, and the cost of delivering service rises each year. TAT collections are our second largest source of revenue, and it is critically important that TAT revenues to the counties increase as the visitor count increases. The counties need these resources to deliver the services that our residents and visitors require and expect.

The cap in TAT revenues to the counties that was imposed in 2011 was always understood to be a temporary measure, and the cap is scheduled to end in 2015. We respectfully ask that your committee remove the cap on the counties' share of TAT revenues.

Mahalo for your consideration.

Aloha,

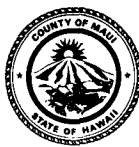
A handwritten signature in black ink, appearing to read 'W. P. Kenoi', with a long horizontal flourish extending to the right.

William P. Kenoi
MAYOR

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

March 15, 2013

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

FROM: Gladys C. Baisa *GB*
Council Chair

SUBJECT: **HEARING OF MARCH 18, 2013; TESTIMONY IN OPPOSITION TO SB 1194, SD2, 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; decrease the amounts to be distributed to the convention center enterprise special fund, the tourism special fund, and the counties; eliminate the daily transient accommodations tax for complimentary accommodations; change the amount of the temporary cap on funds allocated to the tourism special fund; and change the total amount of transient accommodations tax revenues and the percentages of that total amount deposited from the tourism special fund to the State parks special fund and the special land and development fund.

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 strongly oppose this measure, as it relates solely to the decrease in the distribution of TAT revenues to the counties, for the following reasons:

1. There is a clear correlation between the visitors' impact on county infrastructure and returning a fair share of 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 revenue 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 strongly oppose this measure, as it relates solely to the decrease in the distribution of TAT revenues to the counties.

SB1194

Submitted on: 3/15/2013

Testimony for TOU on Mar 18, 2013 09:35AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
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

Council Chair
Gladys C. Baisa

Vice-Chair
Robert Carroll

Council Members
Elle Cochran
Donald G. Couch, Jr.
Stacy Crivello
Don S. Guzman, Esq.
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Mike White



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David M. Raatz, Jr., Esq.

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www.mauicounty.gov/council

March 15, 2013

TO: Honorable Tom Brower, Chair
House Committee on Tourism

FROM: Stacy Crivello
Council Member

A handwritten signature in black ink, appearing to be "Stacy Crivello", is written over the printed name and title.

DATE: March 18, 2013

SUBJECT: **OPPOSITION TO SB 1194, S.D. 2, RELATING TO TRANSIENT
ACCOMMODATIONS TAX**

I oppose SB 1194, S.D.2 for the reasons cited in testimony submitted by the Maui County Council Chair,
and urge you to oppose this measure.

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

COUNTY COUNCIL
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WAILUKU, MAUI, HAWAII 96793
www.mauicounty.gov/council

March 15, 2013

TO: Honorable Tom Brower, Chair
House Committee on Tourism

FROM: Robert Carroll
Council Member, East Maui

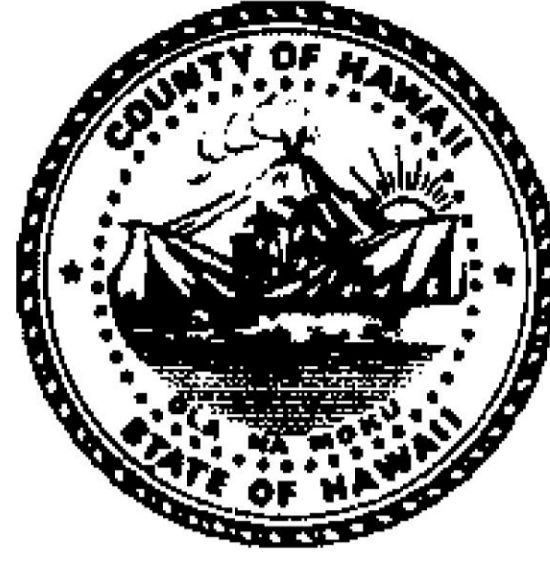
A handwritten signature in black ink that reads "Robert Carroll". The signature is written in a cursive style.

DATE: Hearing of Monday, March 18, 2013

SUBJECT: **OPPOSITION OF SB 1194 S.D. 2, RELATING TO TRANSIENT
ACCOMMODATION TAX**

I oppose SB 1194 SD 2, for the reasons cited in testimony submitted by the Maui County Council Chair,
and urge you to oppose this measure.

DENNIS "FRESH" ONISHI
Council Member
District 3



PHONE: (808) 961-8396
FAX: (808) 961-8912
EMAIL: donishi@co.hawaii.hi.us

HAWAI'I COUNTY COUNCIL
25 Aupuni Street, Hilo, Hawai'i 96720

March 13, 2013

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

Dear Chair Brower and Committee members,

I thank you for the opportunity as a Hawai'i County Council member and as vice president of the Hawai'i State Association of Counties to present testimony in **strong opposition** to SB 1194 SD2.

I oppose any effort to reduce the percentage of the temporary accommodations tax that goes toward alleviating the impact of visitors on county facilities.

Visitors to Hawai'i Island use county parks. They drink county water, drive on county roads, and call on county first responders. I welcome visitors from around the world to see the wonders of our island. At the same time, we must acknowledge the fiscal impact on our limited county resources.

The 44.8 percent of the TAT that goes to the counties compensates for this impact, but Senate Bill 1194 SD2 is a step in the wrong direction. Capping and cutting this tax would have a cascading effect on county budgets, creating either critical shortfalls in the services mentioned above or tax increases on island residents, or both.

I ask that you not recommend approval of this bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis Onishi". The signature is stylized and cursive.

Dennis "Fresh" Onishi
Vice President, Hawai'i State Association of Counties
Hawai'i County Council, District 3.



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

Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
S.B. 1194, S.D. 2
Relating to Transient Accommodations Tax
House Committee on Tourism
Monday, March 18, 2013
9:35 a.m.
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports S.B. 1194, S.D. 2, with amendments. S.B. 1194, S.D. 2, proposes to:

- (1) Make the 9.25 per cent transient accommodations tax rate permanent;
- (2) Reduce the percentages on deposits into the Convention Center Enterprise Special Fund, the Tourism Special Fund, and the distribution to the counties;
- (3) Change the \$71 million dollar limit on deposits into the Tourism Special Fund to an unspecified amount; and
- (4) Change the \$1 million dollar in TAT revenues deposited into the State Parks Special Fund and into the Special Land and Development Fund for the statewide trail and access to unspecified amounts.

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.

We understand that keeping the TAT rate at 9.25 percent is important to ensuring that the Administration's financial plan is balanced. We can cautiously support a 9.25 per cent TAT rate, but request that the bill be amended to adjust 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 also request that SECTION 2 of the bill be amended to have paragraph (b)(2) read as follows:

“(2) [34.2] 22.0 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]~~ \$80,800,000 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] 22.0 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”

Instead of allocating \$1 million from the Tourism Special Fund for parks, trail and access, we propose that the TAT law be amended to provide for allocating 1 per cent of TAT revenues, not to exceed \$4 million, for a program to be called *Kāko’o Kaiapuniola*, which shall deposit \$2 million into the State Parks Special Fund, provided that the expenditure of funds shall be matched by appropriations from the general fund; and the amount in excess of \$2 million into the special land and development fund for:

- a. Protection, preservation, and enhancement of natural resources important to the visitor industry;
- b. Planning, construction, and repair of facilities;
- c. Operation and maintenance of public lands that enhance the visitor experience; and
- d. Administrative costs associated with the management of the various resources.

In addition to investing in the development and enhancement of our marketing programs, we must also invest in the resources that are vital to the Hawaii visitor experience, such as our parks, natural areas, and shoreline resources.

Finally, we propose that S.B. 1194 be further amended to provide for funding of the beach nourishment project EIS for Kaanapali Beach.

Mahalo for the opportunity to offer these comments and for your consideration of the amendments being proposed.



HAWAII LODGING & TOURISM

ASSOCIATION

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TESTIMONY OF GEORGE SZIGETI
PRESIDENT & CEO
HAWAII LODGING & TOURISM ASSOCIATION
House Committee on tourism

Monday, March 18th, 2013. 9:35am Room 312

RE: SB 1194, SD2 Relating to the Transient Accommodations Tax

Good morning Chair Brower, Vice Chair Cachola, and members of the committee. I am George Szigeti, President & CEO of the Hawai'i Lodging & Tourism Association.

The Hawai'i 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.

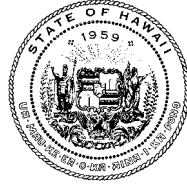
We need to continue to be able to have a strong marketing capability to remain competitive. Destinations like Mexico, the Caribbean and Puerto Rico offer the same sun, sand and surf for less. We have seen that strong marketing of our islands also helped us survive a tourism downturn when Japan was hit 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 in opposition of SB 1194.

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, March 18, 2013
Time: 9:35 A.M.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 1194, S.D. 2 Relating to Transient Accommodations Tax.

The Department **supports** S.B. 1194, S.D.2 and offers the following information and comments for your consideration.

First, the Department strongly supports making the current transient accommodations tax (TAT) rate of 9.25% permanent. Allowing the TAT rate to return to 7.25% would take needed funds from the general fund. It is the Department's understanding that making the current tax rate of 9.25% permanent is built into the state's six-year financial plan.

Second, changing the wording in section 237D-2, HRS, to state the rate simply and in one paragraph of the section will make it easier for taxpayers to understand the percentage of TAT imposed.

Third, the Department supports repealing the complimentary room tax of \$10 per day under section 237D-2(c) because it is difficult to administer and generates little revenue.

Thank you for the opportunity to provide testimony.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON TOURISM
ON
SENATE BILL NO. 1194, S.D. 2

March 18, 2013

RELATING TO TRANSIENT ACCOMMODATIONS TAX

Senate Bill No. 1194, S.D. 2, eliminates the sunset on June 30, 2015 of the 9.25% tax rate for the Transient Accommodations Tax (TAT), and reduces the caps on the amount of TAT revenues to be distributed to the respective counties, the Convention Center Enterprise Special Fund, and the Tourism Special Fund (TSF). The bill also retains an indeterminate temporary ceiling on TAT allocations to the TSF and allows for indeterminate percentages to be deposited into the State Parks Special Fund and the Special Land and Development Fund.

The Department of Budget and Finance appreciates the retention of the cap on the amount of TAT that may be deposited into the TSF. The department cautions leaving an indeterminate amount as the cap, as well as deliberating an appropriate new amount for the cap. The current cap of \$71 million is a key component of the State's general fund financial plan. Maintaining the current level of the cap ensures that general fund revenues remain balanced during the upcoming FB 2013-15 and future fiscal years. Enacted by Act 103, SLH 2011, the \$71 million cap and the resulting general fund revenues are factored into the Administration's general fund financial plan and eliminating the cap will result in significant general fund losses for FB 2013-15. The department is open to considering a revision to the amount of the cap of TAT revenues deposited into the TSF.

The financial plan anticipates that 2% of the current TAT activity, which equates to approximately \$95 million per year, will accrue to the general fund of the State of Hawaii. While the current TAT amount is scheduled to be reduced by 2% starting in FY 2016, the current projections for State revenues in that year are also projected to be flat (based on Council on Revenues forecasts) largely due to the sunset of a number of current temporary revenue measures.

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

WILLIAM J. AILA, JR.
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ESTHER KIA'AINA
FIRST DEPUTY

WILLIAM M. TAM
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

Testimony of
WILLIAM J. AILA, JR.
Chairperson

Before the House Committee on
TOURISM

Monday, March 18, 2013
9:35 AM
State Capitol, Conference Room 312

In consideration of
SENATE BILL 1194, SENATE DRAFT 2
RELATING TO TRANSIENT ACCOMMODATIONS TAX

Senate Bill 1194, Senate Draft 2 proposes among other things to reallocate portions of Transient Accommodations Tax (TAT) revenues deposited into the Tourism Special Fund to the Department of Land and Natural Resources' (Department) State Parks Special Fund and the Special Land and Development Fund. **The Department supports this bill to the extent that it does not reduce but rather increases the current allocations to the State Parks Special Fund and the Special Land and Development Fund. The Department defers to the appropriate affected agencies on all other aspects of this bill.**

Presently, an amount of \$1,000,000 from the TAT is allotted to the Department. Of this amount, 90% is allotted to the State Parks Special Fund and 10% is allotted to the Special Land and Development Fund for the Statewide Trail and Access Program (Na Ala Hele). These allocations allow the Department to make significant improvements to the parks and trails for the benefit of both residents and visitors.



March 18, 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: Senate Bill 1194 SD2, 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, 9th Floor
Wailuku, Hawaii 96793

The Honorable Tom Brower

Page 2

March 18, 2013

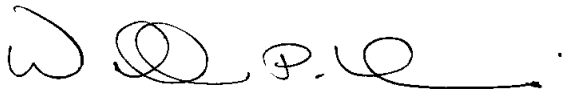
The costs of providing county services to visitors are always increasing. Normally, as tourism increases there is also an increase in county collections from the TAT to help offset some of the escalating costs from the influx of record numbers of visitors. If the TAT cap is made permanent, that will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



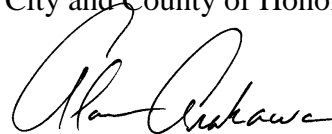
William Kenoi, Mayor
County of Hawai'i



Kirk Caldwell, Mayor
City and County of Honolulu



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



Alan Arakawa, Mayor
County of Maui

starwood

Hotels and
Resorts

2155 kalakaua avenue, suite 300
honolulu, hi 96815

united states

March 18, 2013

To: Honorable Tom Brower, Chair
House Committee on Tourism
Hawaii State Capitol, Honolulu, Hawaii 96813

RE: **SB 1194 SD2, Relating to the Transient Accommodations Tax - Comments**
Conference Room 312, 9:35 AM

Aloha Chair Brower and Members of the Committee:

My name is Keith Vieira, Senior Vice President of Operations for Starwood Hotels and Resorts (“Starwood”) in Hawai’i and in French Polynesia. We appreciate the opportunity to provide comments on SB 1194 SD2, relating to the Transient Accommodations Tax (“TAT”).

We are concerned that the imposition of any new taxes and fees on the visitor industry would not result in the generation of more revenues for the state as intended and may have perverse consequences by causing a visitor to choose another less costly destination than Hawai’i and urge legislators not to pursue any increase in the TAT or to expand the TAT to other services that are unrelated to the gross rental or gross rental proceeds derived from furnishing transient accommodation.

That said, Starwood supports the provision in this bill to repeal the daily \$10 tax on a transient accommodation furnished on a complimentary or gratuitous basis. Hawai’i hotels compete with vacation destinations worldwide, complimentary and budget-priced rooms are marketed for various reasons from promotions to reach travel writers and visitor industry marketers to providing affordable “stay-cations” for our kama’āina, and for local business travelers. Complimentary rooms are used by the hospitality industry to attract meeting planners to bring events here, to educate and encourage travel opportunities for booking vacations for clients, and to give travel writers the opportunity to publish and produce stories about Hawai’i as a meeting and vacation destination. These rooms are also often used to attract film crews to the state.

Starwood also supports keeping the current rate at 9.25% only with the provision to lift the \$71 million cap for the Hawai’i Tourism Authority (“HTA”). We believe that increased revenues should support the original intent of the TAT to fund the work of HTA, which markets the state world-wide and helps strengthen our visitor industry. We believe this is a positive step to encourage marketing for our state.

We appreciate the opportunity to offer comments on this bill.

Sincerely,

Keith Vieira
Senior Vice President of Operations
Starwood Hotels and Resorts in Hawai’i and in French Polynesia



OUTRIGGER®
ENTERPRISES GROUP
Hospitality • Retail • Development

HOUSE OF REPRESENTATIVES
THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

COMMITTEE ON TOURISM
Representative Tom Brower, Chair

3/18/13
Rm. 312, 9:35 AM

SB 1194, SD 2
Relating to Transient Accommodations Tax

Chair Brower, my name is Max Sword. On behalf of Outrigger Hotels Hawaii we are in opposition to SB 1194 bills, which eliminates the sunset date on the 2% TAT increased in 2009, as well as decreases the amount of funds to the convention center fund, the tourism special fund.

Why would we oppose the State retaining the 2% increase, when the news media continues to paint such a rosey tourism picture of record tourist numbers and rising room rates?

In 2008 thru 2010, the room rates dropped 20, 30 and in some quarters 50%, which means that our Revenue Per Available Room (RevPAR) shrunk. To provide you with a historical prospective, between 2008 and the present, the Statewide RevPAR rose 4%, while our utility cost is up by 41% points, our payroll cost is up 28%, our health and welfare cost is up 40%.

We also believe that it is totally suicidal to decrease the amount provided for the tourism special fund and the convention center special fund. Right now the tourism special fund for marketing is what will keep our number one industry flourishing. In fact if you adjust for inflation, we are short by 17M dollars.

The bottom line, if the TAT is kept at 9.25%, where will you get the extra revenue from, when the industry takes it next down turn? Raise the TAT another 2 percentage points to 11.25%?

Give the industry a break a let it flourish at 7.25%, then when the next crisis comes, take it up to 9.25% for the revenue.

Everyone else gets a break, why not the number one industry?

We urge your deferral of this bill.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, Make rate permanent; amend dispositions

BILL NUMBER: SB 1194, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 237D-2 to make the temporary increase in the transient accommodations 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) 23.5% 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. Repeals the provision depositing the amount of TAT revenues attributable to the 1% or 2% increase in the TAT rate into the general fund.

The limitation of \$71 million of TAT revenues deposited into the tourism special fund shall be \$_____. Also provides that of the revenues deposited into the tourism special fund, of the first \$_____ in revenues deposited, ___% shall be deposited into the state parks special fund and ___% shall be deposited into the special land and development fund for the Hawaii statewide trail and access program.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: This was 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. This measure terminates the provision depositing the amount attributable to the increase in the TAT rate to the general fund and provides that the \$71 million limitation of the amount of TAT revenues that is to be deposited into the tourism special fund shall be \$_____.

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 tax 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.



Honorable Tom Brower, Chair
Honorable Romy Cachola, Vice Chair
House Committee on Tourism

Monday, March 18, 2013; 9:35 AM
Hawaii State Capitol; Conference Room 312

SB 1194 SD2 – Relating to Transient Accommodations Tax – Comments

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

The Kohala Coast Resort Association (KCRA) appreciates this opportunity to provide comments on SB 1194 SD2.

While we support eliminating the daily transient accommodations tax (“TAT”) for complimentary accommodations, we oppose eliminating the sunset of the TAT rate of 9.25 percent.

KCRA members represent more than 60% of Hawaii island's hotel rooms and vacation rentals and directly employ nearly 5,000 island residents. The members of the resort association include: Hualalai Resort, Mauna Kea Resort, Mauna Lani Resort and Waikoloa Beach Resort. The hotels located within these resorts are also members – Four Seasons Resort Hualalai, Hapuna Beach Prince Hotel, Hilton Waikoloa Village, Mauna Kea Beach Hotel, Mauna Lani Bay Hotel & Bungalows, The Fairmont Orchid, Hawaii, and Waikoloa Beach Marriott Resort & Spa.

Complimentary accommodations are used by our members to promote and market our destination. In addition to offering complimentary rooms to travel writers, travel agents and meeting planners, our members also donate complimentary rooms to charities and non-profits. Eliminating the tax on complimentary accommodations will provide some tax relief to members, and just as importantly, it will allow them to better support their community and the marketing and promotion of their property and the broader destination.

The hotels have had one reasonably good year in the last five and while Oahu may be at historic levels of occupancy, the same cannot be said for Hawai`i Island properties. Visitor statistics show that while Oahu enjoyed an 85% occupancy level in 2012, Hawai`i Island’s occupancy trailed by 23 percentage points at 62 percent.

The membership would also like to point out that increasing occupancy does not equal increasing profits as operating costs such as utilities, shipping and medical benefits for staff continue to climb.

Airlift, the visitor industry's lifeline, continues to be a concern for our island. Kona International Airport lost its international airlift when Japan Airlines pulled its route in late 2010 and this year, Kona is expected to have a 3.3 percent drop in domestic seats. Added is the difficulty in getting visitors to Hawai'i Island due to limited inter-island airlift.

Allowing the TAT to roll back to 7.25 percent would make it possible for our resorts and hotels to be more competitive in the leisure travel marketplace. We ask for your favorable consideration in honoring the sunset date of the temporary increase in the TAT.

Mahalo nui loa,
Sharon Sakai
Administrative Director

SB1194

Submitted on: 3/17/2013

Testimony for TOU on Mar 18, 2013 09:35AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Lee Aldridge	Individual	Oppose	No

Comments: I OPPOSE SB1194. How many times does the State Legislature renege on their promises? The transient accommodations tax was supposed to be temporary and is supposed to sunset; but this bill would make it permanent. So another temporary tax becomes permanent.

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.

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