HAWAI'I LODGING & TOURISM ASSOCIATION

June 6, 2018

The Honorable David Y. Ige
Governor of Hawai‘i
Executive Chambers
State Capitol
Honolulu, Hawai‘i 96813

Dear Governor Ige:

We, the members of the Hawai‘i Lodging & Tourism Association, urge you to veto Senate Bill 2699, S.D. 2, H.D. 1, C.D. 1., relating to the transient accommodations tax.

The HLTA is the largest private sector visitor industry organization in the islands with nearly 700 members, 170 of which are hotels managing 51,000 rooms.

Senate Bill 2699 imposes the transient accommodations tax on resort fees, defined in the legislation as “any charge or surcharge imposed by an operator, owner, or representative thereof to a transient for the use of transient accommodations, property, services, or amenities.”

We continue to vigorously oppose this measure, for these reasons:

The language in the final version of Senate 2699 is vaguely crafted, leaving the potential that the TAT could be imposed on just about any business activity in a hotel. The Legislature also delegated the definition of resort fees to the Department of Taxation, leaving it to tax administrators to determine what is to be taxed, potentially without the scrutiny or public input of those who must pay the tax, or an analysis of the economic impact or revenue generation of this revenue source.

The TAT was not established for this purpose and places yet another financial burden on what is already the state’s highest-taxed industry and greatest economic contributor. Hotel, resort, and timeshare guests presently are being taxed at a whopping 10.25 percent, with an additional 4.5 percent general excise tax added to the final charges. If Senate Bill 2699 is signed into law, taxes would account for an even larger share of the fees passed on to our guests.

Legislators promised that the TAT would revert back to 7.75 percent in 2015, but that provision died and we have since been on the watch for ever more increases that are being used to replenish state coffers. In fiscal year 2013, the general fund allocation from the TAT was 41.9 percent, five years later it ballooned to 52.3 percent, and in fiscal year 2018 it grew to 60.4 percent, a development far removed

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from the original intent of the TAT which was to fund visitor industry marketing, the convention center, and county services that support tourism.

The visitor industry is the economic driver for our economy. According to the Hawai‘i Tourism Authority, it generates more than 204,000 jobs, and now raises $545 million through the TAT alone, a tax that was just raised at the beginning of the year and is levied solely on the hotel, resort, and timeshare industry.

The visitor industry, and Hawai‘i's economy as a whole, have enjoyed six consecutive years of growth, meaning that TAT revenues have grown commensurately and so has the amount of revenue being diverted to the general fund. Not only is additional revenue being generated, but the visitor industry finds itself financing the City and County of Honolulu's rail project. This practice of the hospitality industry footing the bill for new mandates and to balance the budget, with the only overarching justification given that the state government needs the money, is a dangerous pattern with no end in sight. Last session it was a new increase to the TAT; this year it's a TAT on resort fees. And that doesn't include an unsuccessful attempt to amend the Constitution to increase the TAT to fund public education. We can only wonder when elected officials will come to the realization that any industry can only bear so much before competitive pressures affect its viability.

Meanwhile, our industry continues to experience the increasing costs of doing business in terms of employee payroll and benefits, construction and maintenance, utilities, and higher county property taxes—all of which must be passed on to our guests.

Early in the legislative session, we heard directly from your administration that it was supporting this resort fee taxation proposal because it would generate an estimated $11 million in revenue. However, the impact of the ongoing Kilauea eruption on tourism should bring to mind the cyclical nature of the visitor industry. Due in part to present natural disasters, we are witnessing a recent year-over-year decline. For example, a snapshot taken during the week of May 21 revealed that Hawaii airline passengers were down 23%, total Hawai‘i package sales were down 26%, and there was a total decrease in island sales. Overall, we are still up in fiscal year 2018 but we are declining quickly, and with the Kilauea volcano images headlining news stations nationwide we continue to prepare for the worst. This leads us to reiterate that while we have enjoyed record visitor arrivals for a sustained period, given what we are experiencing, this phenomenal growth is starting to slide and we must be prepared to weather any future economic downturns through competitive pricing against other destinations.

Moreover, the latest projection from the State Council on Revenues states that tax revenue for this year will grow by an estimated 7.3 percent, a 2-percent increase from the original projection of 5.3 percent, which equates to **<u>$125 million</u>** in additional, unbudgeted tax collections. With such a large surplus making its way into state coffers, thanks in large part to the tourism industry's strength, why are we adding an additional burden on our hotels and visitors to make up for the aforementioned **<u>$11 million</u>**?

With regard to resort fees, the TAT traditionally has not been applied to the resort fee because this charge is not part of a guest room or transient accommodation. It is for services or products used by guests, such as the use of gym and spa facilities, wifi, shuttle services, and so forth. On a global scale, applying the hotel room tax to virtually every aspect of a guest's experience is by no means a standard practice. However, the hotels do collect and remit to the state the general excise tax on these resort fees.

Many lodging properties have decided to recover some of the costs of guest amenities through the resort fee. This fee customarily includes a bundle of services that would cost more individually if they were not grouped. Hotel surveys have revealed that guests prefer an all-inclusive resort fee rather than being charged for each service used, as was the practice in the past.

Hotels have been transparent about these resort fees. They are fully disclosed on hotel websites, as well as on online booking engines and at the time of check-in.

An agreement on the tax collection issue with transient vacation rentals has defied the best efforts of the hotel industry, Legislature, and executive branch. We believe a stronger push to enact tax legislation in that regard would have generated more than the additional revenue you seek.

For these reasons, we urge you to veto Senate Bill 2699.

Mahalo for your consideration.

Sincerely,

HLTA Executive Officers & Chapter Chairpersons:

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Glenn Vergara
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Michael Jokovich
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Angela Nolan
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Neil Murakami
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