



ISLAND MATTERS *Mufi Hannemann*

Taking Issue With Mayor's Tax Increase Plan

In an attempt to balance a city budget that has ballooned by \$1 billion over the past decade — a 55 percent increase — Mayor Kirk Caldwell is now proposing that hotels and resorts pay higher property taxes.

This proposal comes despite several realities: 1) the hotel industry collects an additional room tax surcharge exclusively for the city's rail project; 2) the city receives the largest share of the hotel room tax revenue allocation to the counties; 3) hotels have the highest tax rates among all O'ahu real property classes; and 4) hotels are



Hawai'i Lodging & Tourism Association members meet with the City Council at Honolulu Hale to discuss potential hotel/resort property tax increases. Pictured are (from left) Glenn Vergara, Waikiki Resort Hotel; Scott Hamilton, Hilton Hawaiian Village; Tom Calame, Sheraton Waikiki; the author; Bonnie Kiyabu, Hyatt Regency Waikiki Beach Resort & Spa; Fred Orr, Sheraton Princess Ka'iulani; Rick Egged, Waikiki Improvement Association; and Simeon Miranda, Embassy Suites by Hilton Waikiki Beach Walk.

PHOTO COURTESY JARED HIGASHI

experiencing a downturn in visitor arrivals and spending of late with this past February and March being some

of the worst months ever, according to the latest tourism statistics.

If that weren't enough,

any homeowner knows that property valuations have jumped. Assessed values for hotels have skyrocketed a whopping 85 percent in the past four years alone, with a commensurate increase in property taxes paid.

To illustrate, total property taxes collected by the city has risen 59 percent since 2011, but taxes assessed on hotels have increased an astounding 141 percent. This year, six hotel companies — Kyo-ya, Hilton, Outrigger, Disney, Ko 'Olina and Halekūlani — are among the top 10 largest O'ahu taxpayers.

There's more. The Waikiki Business Improve-

ment District, which provides public services on behalf of the city government, assesses fees on hotels for streetscape maintenance, hospitality programs and security. Beach improvements are funded by the hotels via the Waikiki Business Special Improvement District Association. That means in addition to paying state and city taxes, the hotels are taxed to underwrite services that would ordinarily be provided by the government.

Yet multi-million-dollar construction investments are being planned for Turtle Bay Resort, Atlantis, Princess Ka'iulani and other hotels,

which will add to property values. Higher taxes will discourage that investment.

Real property and other taxes are not the only business costs that are growing. Hotels must pay for rising employee payroll and benefits, supplies, utilities, repair and maintenance of large and often aging buildings, and other expenses common to these enterprises. Visitors bear these higher costs, which adversely affect Hawai'i's competitiveness.

Hawai'i Lodging & Tourism Association took a firm position against the Caldwell proposal. I led a contingent of hoteliers headed

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by our HLTA chairman, Glenn Vergara of Waikiki Resort Hotel, to meet with City Councilmembers Mike Formby, Kimberly Pine, Brandon Elefante, Carol Fukunaga, Ron Menor and Heidi Tsuneyoshi to share our mana'o on this issue. We also had an opportunity to chat with Budget chairman Joey Manahan, and I have met with Council chairwoman Ann Kobayashi and Councilman Ikaika Anderson on this matter.

We highlighted the points I just made above and how more and more visitors are staying at mostly illegal alternative accommodations, as well as how the visitor industry contributes in many other ways to the city and community through generous, year-round donations and volunteer service. For instance, over \$3 million is contributed each year to local charities and over half a million dollars is provided in scholarships to high school and college students. Tourism monies are also contributing to Mayor Caldwell's personal ask for up to \$500,000 to help stage the U.S. Conference of Mayors annual meeting in Honolulu this summer.

Our conclusion was that the Caldwell administration

should have first looked at cutting its spending. From fiscal years 2015 to 2018, 300 new government positions have been added to the payroll. And a point worth restating is that the operating budget the year before the Caldwell administration took office was \$1.95 billion; seven years later, it has ballooned by nearly \$1 billion.

Finally, coming to grips with the thorny illegal vacation rentals issue by the City Council enacting legislation that would level the playing field and collect long-overdue taxes from businesses that are not now paying their fair share of taxes is a must. Property taxes, registration fees and substantive fines collected on these rentals would add to its coffers and obviate continuing efforts to tax the hotel industry to balance the city budget.

Moreover, communities and local residents who yearn for affordable rentals and are frustrated with some of their personal experiences with these illegal vacation rentals would be grateful that their government is finally responding to make their quality of life better.

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