



HAWAII HOTEL & LODGING

A S S O C I A T I O N

2010 PUBLIC AFFAIRS POSITIONS

THE MISSION OF THE HAWAII HOTEL & LODGING ASSOCIATION IS TO PROVIDE
ADVOCACY AND EDUCATION TO THE HOSPITALITY INDUSTRY.

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THE HAWAII HOTEL & LODGING ASSOCIATION'S 2010 PUBLIC AFFAIRS POSITIONS' SUPPORTING STATEMENTS

TAXATION:

TRANSIENT ACCOMMODATIONS TAX ("TAT"):

The Hawaii Hotel & Lodging Association opposes any further increases to the Transient Accommodations Tax ("TAT") or additional taxes directed at the accommodations industry. Hawaii's hotels in 2008 paid \$244.4 million in extra taxes that were paid by no other industry. This included \$229.4 million in Transient Accommodations taxes and \$15.0 million in extra real property taxes in Maui since hotels, resorts & timeshares are taxed at higher rates than any other commercial property.

In 2009 the State also raised the TAT with a 1 percentage point increase effective 7/1/09 and an additional 1 percentage point on 7/1/10. Since 7/1/09, guests pay a TAT of 8.25%. Coupled with the GET, guests pay a 12.41% tax rate on the Neighbor Islands and 12.96% on Oahu. Based on the annual average cost of a hotel room and the 12.41% tax rate, the average tax bill would be \$25 per night. This is more than double the average nightly room tax revenue in the US.

Hawaii has reached the point where added taxes hurt business. This can be demonstrated in 2 ways. First, destinations with the highest room taxes are business destinations like New York City, 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 business. In resort destinations like Hawaii, our competitors tax rates are often lower (San Diego 10.5%, Orlando 11%, etc...). All of these destinations also have lower room rates due to lower costs 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 it more difficult to be competitive and for businesses to be profitable.

UNEMPLOYMENT INSURANCE

In 2007, Hawaii had a large unemployment insurance trust fund. Businesses' annual tax contribution also exceeded fund payouts. As a result of that situation, the tax rates and taxable income levels were adjusted to reduce tax payments.

Due to the sudden and prolonged slow down in the economy, Hawaii has seen a dramatic increase in unemployment. Unfortunately all economic projections anticipate elevated unemployment levels for a foreseeable future. All of these circumstances lead to the need to substantially increase the flow of revenue into the Unemployment Insurance Trust Fund.

The Hawai'i Hotel & Lodging Association recognizes that the Trust Fund must be replenished to a sustainable level. We also support efforts to develop a formula that replenishes the Trust Fund and spreads tax increases over time to minimize the shock caused by dramatic increases in our current weak economy. Utilizing a loan from the Federal Government should be one of the factors considered in developing a reasonable solution.

COUNTY FUNDING:

The Hawai'i Hotel & Lodging Association believes the Counties should receive a stable and equitable level of funding support from the State. This is important, as the counties increasingly must deal with the added infrastructure costs created by community growth.

VISITOR INDUSTRY:

HAWAII TOURISM AUTHORITY ("HTA") MARKETING:

The percentage of Transient Accommodations Tax (TAT) dedicated to the HTA should be restored to the original 37.9% level. The increased funding would enable the HTA to increase the funds available for marketing and still pursue its diverse mandate. Increased funding for marketing is especially critical since Hawaii's visitor industry is facing a severe and prolonged downturn due largely to economic problems around the world. This downturn is having a direct negative impact on jobs and tax revenue. The most effective way to mitigate these effects is to increase demand for Hawaii tourism. Increased marketing is one of the investments the State can make that will more than pay for itself. Additional marketing funds will return additional taxes beyond the amounts invested and be a big help in keeping people employed.

Another important consideration is the need to maintain airlift to Hawaii. Unless there is sufficient demand to keep airplanes full, Hawaii faces the prospect of airlines canceling flights and relocating equipment to more profitable routes.

VISITOR INDUSTRY CONTINUED:

SUSTAINABLE DEVELOPMENT:

The Hawai'i Hotel & Lodging Association supports efforts to ensure the strength and sustainability of our economy while simultaneously protecting our community and environment from over development and over use of resources.

Hawaii has seen increased growth in recent years. In addition to the economic benefits, this activity has reminded everyone of the fragility of our islands. Care must be taken to ensure the health of our environment and community.

RESORT AREA IMPROVEMENTS:

Efforts must be made to improve the appearance of Resort Areas. Improvements include upgrading the existing room-inventory; creating more open space in resort areas; restoring and maintaining historical sites and visitor attractions. Special attention also needs to be given to improving traffic flow throughout our islands. Both public and private sector investments are needed for these improvements.

In addition, the Hawai'i Hotel & Lodging Association supports strict enforcement of existing litter laws. Hawaii's natural beauty should not be marred by litter. Public and private programs should be supported that educate the public on the existing litter laws and to assist in the reduction of litter.

VISITOR ARRIVALS and DEPARTURES:

Security awareness and security measures are a fact of life today. This is especially true at our airports. Enhanced security is now a part of traveling. We must, however also support programs that provide the best impression including rapid and efficient movement to arriving and departing passengers at our airports. In order to protect the hospitality of Hawaii, more improvements should be made in the following areas:

- A. Better communications capabilities to report on conditions at airports;
- B. Better hospitality training for airport personnel;
- C. Better signage to ease visitor movement;
- D. More effective and efficient security screening;
- E. Better use of the Visitor Information Program;
- F. Better handling of lost baggage procedures;
- G. Better handling of curbside arrivals and departures; -
- H. Increased information to travelers about what will trigger a security check;
- I. Create a more pleasant wait in the Domestic arrivals area (i.e. add food & beverages);
- J. Improve at least the basic maintenance and cleanliness; and
- K. Improve the ambiance within the terminals with cultural displays.

Many of the identified improvements are included in the recently approved Airport Modernization Program. We urge continued funding for these important improvements.

TAX & REGULATORY EQUITY:

The Hawai'i Hotel & Lodging Association strongly believes that all forms of accommodations should pay their fair share of taxes. In today's highly competitive environment, the advantage gained by lodging unit operators who are not paying their taxes can be substantial. This is not only unfair to operators who are paying their taxes, but short changes the State and Counties as well. This revenue loss negatively impacts the government's ability to provide necessary services and infrastructure as well as reducing funding to the HTA to promote Hawaii.

Traditional accommodation units (hotels, timeshares and condominiums) also comply with a variety of land use regulations. The regulations have been established to guide and direct development in appropriate patterns and protect the integrity of residential neighborhoods. When these regulations are not equitably enforced, community resentment leads to negative perceptions of the entire visitor industry. We strongly believe that visitor accommodations should only occur where allowed by law and where the public infrastructure can handle the increased population.

This equity issue is highlighted on Maui where hotels are required to provide an affordable housing unit for every 4 visitor units developed in the resort district. This is obviously a major expense not required of the cruise or transient vacation unit industries.

Finally, the State should ensure all forms of Vacation Rentals are paying the GET and the TAT.

VISITOR INDUSTRY CONTINUED:

ALOHA SPIRIT and HAWAII'S HERITAGE:

The Hawai'i Hotel & Lodging Association supports efforts to educate everyone on Hawaii's heritage and how to maintain and promote the Aloha Spirit. Our cultural heritage is a major factor in what makes Hawaii a special place to live and visit. We would especially encourage the schools to include programs in their curriculum to educate our children about the Hawaiian heritage and language. The annual Aloha Festival is another way that Hawaiian Culture is shared with residents and visitors and should be supported.

INFRASTRUCTURE:

The Hawai'i Hotel & Lodging Association supports improving the infrastructure throughout the state. As our communities grow, we need to ensure that our roads, utility systems, parks and other public facilities are maintained, upgraded and expanded as necessary for residents and visitors. Care must be taken in these efforts to protect the natural and historical assets of Hawaii.

In addition, the Hawai'i Hotel & Lodging Association strongly supports needed terminal & fuel facility improvements at our airports. Improvements at all airports need to be made in order for us to continue to be a competitive and attractive destination.

Finally, each county must increase efforts in developing systems for waste disposal and recycling. As the volume of waste increases, pressure mounts on Hawaii's landfills. All counties lack the landfill capacity to have these increases continue unchecked. Obviously, recycling is an important way to reduce the volume of material entering the waste stream.

Most hotels are already actively involved in reducing the volume of waste. It is now critical that increased attention be placed on expanding community & residential efforts.

AIRLIFT:

Hawaii is totally dependent on the availability of sufficient airlift capacity. Unlike many competitor destinations, our visitors have virtually no alternatives to arriving by air. We must work to maintain the passenger demand for flights to Hawaii or airlines will reassign planes to other destinations. We must ensure high airline load factors on Hawaii flights in order to preserve jobs and our economic health.

As an island state, air travel between the islands is critical to both residents and visitors. For our community and economy to function most effectively, reliable and affordable inter-island movement of people and goods is essential.

CRUISE INDUSTRY:

The Hawaii Hotel & Lodging Association believes the costs and benefits of expanded cruise-ship activity need to be fully analyzed and understood.

The cruise industry has grown and contracted rapidly in Hawaii in recent years. While helping to diversify tourism product offerings in Hawaii, analysis must be completed to ensure that the costs and benefits of those endeavors are fully understood and quantified. This is particularly critical to the lodging industry, which often competes directly with the cruise lines for visitor business. The lodging industry is also heavily taxed by government to help to defray the impact of visitors on public infrastructure, provide public money for marketing Hawaii and enhance spending for environmental and cultural resource protection.

ALTERNATIVE INTERISLAND MODE OF TRANSPORTATION:

The state should facilitate the development of a variety of inter-island transportation modes. Both people and goods must be able to move efficiently and economically for Hawaii to prosper.

CRISIS MANAGEMENT:

The Hawai'i Hotel & Lodging Association supports increased efforts by both public & private sector entities to improve their response capabilities. The difficulty in obtaining timely information during the 2006 earthquake and subsequent power outages on Oahu highlighted this problem. While improvements to these communication systems have been made, we must continue to improve the reliability and effectiveness of these systems. Both public and private entities must also review and update and improve their crisis management plans.

COMMUNITY:

EDUCATION:

The Hawai'i Hotel & Lodging Association supports efforts to develop greater work opportunities for the people of Hawaii. The Hawai'i Hotel & Lodging Association supports improvement of the State's overall educational system, including implementation of Act 51 of 2004. One area of emphasis should be in programs that emphasize the link between academic and specialized skills by providing meaningful work-based learning opportunities and relevant career pathways. The schools within a school concept, including the academies, should be supported as a means of strengthening this link. Programs should also instill a positive sense of the Hawaiian culture. Another area of emphasis must be to improve the maintenance and physical condition of our school facilities.

NATURAL ENVIRONMENT:

Hawaii is one of the world's unique, diverse and fragile environments. Increased efforts are necessary to protect this environment. These efforts should include setting aside and managing natural areas (including the protection and preservation of our beaches, marine and natural environments), preventing the introduction of alien species, removal of already established aggressive alien species, and developing more useable open space and parks. We should maintain and protect our beaches. Furthermore, conservation efforts to maintain the marine environment are critical to our residents and the visitor industry. To realistically accomplish these objectives, the State must increase its support and funding for environmental protection and conservation efforts.

GAMING:

The Hawai'i Hotel & Lodging Association believes that any decision on the introduction of gaming in Hawaii should be preceded by a careful and thorough examination of the impacts, both positive and negative, on our community, our life style, and our values. Hawaii is a home with a special sense of place for our families and friends, which will need to be retained even in these times of constant and inevitable change.

There is a diversity of opinion within the Hawai'i Hotel & Lodging Association regarding gaming. Some members feel that if properly implemented it will offer a new activity for visitors. Others believe that rather than generate additional money for Hawaii, gaming will simply redirect existing spending in another direction. Many others believe it would have a negative impact on our community, culture and our image as an attractive family destination.

Finally, if the primary reason for gaming in Hawaii is to alleviate the State's fiscal problems, we believe that other alternative measures should be implemented, i.e., increased promotion of Hawaii as a destination, removal of barriers to doing business in Hawaii, downsizing government, prioritizing programs, etc.

The Hawai'i Hotel & Lodging Association is not in favor of gaming in Hawaii.

ILLCIT DRUGS:

The Hawai'i Hotel & Lodging Association believes that Hawaii must continue the expanded efforts to fight our illicit drug problem, especially ice. These efforts should include aggressive measures to prevent the importation and manufacturing of ice, increased education to make people aware of the dangers and consequences of drug use, and expanded treatment and counseling.

ECONOMIC DEVELOPMENT:

STRENGTHENED ECONOMY:

The Hawai'i Hotel & Lodging Association supports efforts to strengthen our economy. We believe this can best be accomplished by pursuing the following five courses:

1. Diversifying Hawaii's economy. This diversity must include a mixture of visitor industry and non-visitor industry activities. In the visitor industry, we must seek balanced growth that meets the needs of the community and allows for a healthy State economy. Efforts should be made to promote and encourage all segments of the economy. The Hawai'i Hotel & Lodging Association supports encouragement of new industries. There should be increased support for growth industries such as the film industry, diversified agriculture, medical services and high technology. The HHLA also supports the use of products grown and made in Hawaii. Support for local products helps to stimulate and strengthen the Hawaii economy.
2. Reducing rather than increasing the tax burden on Hawaii's businesses. Increased taxes only make Hawaii's businesses less competitive and less able to survive. As a community, we must seek ways to stimulate job creation and reinvestment. This cannot be accomplished in an environment of increasing taxes.
3. The state and counties must not impose new mandates or mandated employee benefits on businesses. Well-intentioned and well-meaning mandates often unnecessarily increase the cost of doing business and the cost of government and reduce our competitiveness. To be successful, Hawaii businesses must be price competitive with businesses around the world. Our focus should be on creating an environment where Hawaii firms can prosper and thrive.
4. Improving government efficiency will also help Hawaii prosper. "Business as usual" will not work in the private sector or in government. We must seek ways to use our resources more wisely through technology, combining functions, eliminating unnecessary activities, and privatizing government activities when appropriate.
5. Improving government relations with the community. Government needs to be more aware of their customers and become more user friendly.

Pau!