

Will Raising Hotel Room Tax Be “The Straw That Broke the Camel’s Back”?

*Dr. Richard R. Kelley – Chairman of the Board, Outrigger Enterprises Group
The Chamber of Commerce of Hawai‘i
Hawai‘i Business Roundtable
Hawai‘i Hotel & Lodging Association
Retail Merchants of Hawai‘i*

As the Legislature approaches adjournment, closing the budget gap is clearly the top priority. To help do so, our senators and representatives have passed SB 1111, which raises the Transient Accommodations Tax (TAT), better known as the Hotel Room Tax, from the current 7.25 percent to 8.25 percent in July and 9.25 percent in 2010. Superficially, that looks like “only” two percentage points, but actually it’s a whopping 27.6 percent jump over the current rate.

Raising the TAT would be disastrous. Why? Because it would raise the cost of vacationing in Hawai‘i, thus further cutting the flow of visitors. This would lead to more layoffs and higher unemployment, not only in hotels but at the thousands of small businesses that supply the hotels. Retailers, attractions and restaurants that enhance the visitor experience already have experienced double-digit decreases in business.

Raising the TAT could also push total tax collections down, thanks to the further economic decline it would trigger.

People might wonder why raising the TAT would necessarily raise the cost of vacationing in Hawai‘i. After all, to attract more visitors, hotels and other businesses have already substantially lowered rates. If the TAT were raised, why couldn’t hotels absorb this additional cost of doing business by further lowering rates?

The answer is that with the disastrous drop in visitor numbers, almost all Hawai‘i hotels and related businesses cannot afford to further lower rates or absorb cost increases. Raising the TAT could be the straw that breaks the camel’s back.

The visitor industry underpins the entire Hawai‘i economy. Any damage to tourism will hurt everyone, including our most vulnerable people, who depend on assistance from the cash-strapped government and charitable organizations.

Don’t just take our word for this. Several weeks ago, one of Hawai‘i’s most distinguished economists issued an assessment of “tourism’s contribution to the Hawai‘i economy.” In his report, released by First Hawaiian Bank, Dr. Leroy Laney stated the bottom lines quite clearly:

- *“The Hawai‘i tourism industry is in a crisis mode now.”*
- *“Until tourism gets well, the rest of the economy cannot.”*
- *“Without the [tourism] industry, Hawai‘i’s economy would essentially dry up.”*
- *“Investing in tourism is the fastest road to economic recovery for Hawai‘i – perhaps the only one.”*
- *“It is imperative that leadership efforts be made now to revive and maintain the industry as much and as quickly as possible.”*

Dr. Laney’s report should be a “must read” for everyone in Hawai‘i. Following are other key excerpts.

“Tourism is responsible for by far the largest outside injections into the state economy.” Plainly put, tourism is the largest source of income for Hawai‘i’s people, government, businesses and charitable organizations. It pays for what we import from the rest of the world – that is, most of what we consume.

“Earlier work has suggested that tourism accounts for about a quarter of local Hawai‘i Gross Domestic Product (GDP), and about one-third of local jobs. These estimates are without applying any normal economic multipliers. This study does apply some multipliers. ... Care was taken to estimate these multipliers conservatively.”

- *“Applying an income multiplier of 1.5 to the 25 percent of GDP mentioned above yields 40 percent.”*
- *“Applying a jobs multiplier of 2.6 to the one-third estimate mentioned above yields an astounding share of over 80 percent.”*

This means that nearly half of all economic activity and four jobs out of every five in Hawai‘i depend on tourism.

We ask Governor Lingle to veto SB 1111, so as to avoid this crippling increase in the TAT that will further damage Hawai‘i’s economy, with repercussions that will affect virtually every business and family in these islands. Every resident. Every voter. Every taxpayer. Every recipient of government or charitable assistance.

We also ask that in weighing an override of a possible gubernatorial veto, the Legislature reconsider and think of the health of the state’s No. 1 industry and the unintended consequences of the TAT increase.

Economic recovery must be our top priority. Raising taxes on the visitor industry would be a giant step backward.

Tourism is integral to our economy. We must do everything we can to keep it pumping strongly. We must not weaken it.