Hawaii Legislators Face Great Challenges

The Hawaii State Legislature opens its new session this Wednesday, January 21. After the traditional ceremonies, flowers, and speeches, our legislators will have to confront the significant budget shortfall resulting from rapidly shrinking revenue projections. If state spending were to continue at current levels—and it cannot, due to the state constitutional mandate for a balanced budget—the shortfall for the next two-year budget is estimated at approximately $1.8 billion. That’s how much the legislators will have to trim state government spending.

Hawaii is not alone. Most states face a similar challenge. California is looking at a deficit of $40 billion for the next year-and-a-half alone!

In Hawaii, both state and county governments will have to come up with ways to be more efficient and to eliminate unnecessary programs. That is easier to do in the private sector than in government, but it must be done in 2009.

Increasing taxes as an alternative to budget cutting would be counterproductive, particularly in the current economic climate.

California has learned a painful lesson in that area. As reported in the Wall Street Journal, entrepreneurs, skilled workers, and businesses are leaving that state due to its high tax rates (sixth-highest in the nation) and burdensome, anti-business regulations.

New York City learned a lesson about increasing hotel taxes several years ago. It drove away tourists, conventioneers, and business travelers, and when the increases were rescinded, customers came back, generating more taxes, job opportunities, and prosperity for everyone.

When people look at Hawaii’s budget, there will almost inevitably be calls to cut state-funded tourism marketing. That would be short-sighted however, and I hope legislators will resist the temptation. Instead, I hope they will keep in mind that advertising and marketing are not like other expenses that simply deplete the state treasury. Tourism marketing is instead an INVESTMENT IN JOBS, TAX REVENUES, AND ECONOMIC WELL-BEING for everyone in these islands.

Unlike anything else that government does, money spent for advertising and marketing Hawaii as a visitor destination actually generates jobs and taxes. Every dollar spent to attract visitors to Hawaii brings back many more dollars to businesses of every kind. It preserves existing jobs and creates new ones. It generates tax revenues several times greater than the marketing investment. And the last time I checked, the multiplier effect was several-fold, further boosting the return on these marketing dollars.

During times like these, there should be an INCREASE in tourism marketing. The Legislature can do this in two ways.

First, it could unlock access to the existing $5 million emergency tourism marketing fund. The language of the bill that created that fund said it could be used in the event of an earthquake, sewer spill, or other “natural” disasters. No one thought of the kind of economic disaster we are living through today. That language can be easily changed, and if legislators put it at the top of their agenda, a new marketing campaign could be quickly started to capitalize on all the excellent media coverage Hawaii enjoyed during Barack Obama’s visit last month.

The second item is a little more challenging, but equally important. When the Transient Accommodations Tax (“Hotel Room Tax”) was established in the 1990s, 37.9 percent of the revenue generated was allocated to the Hawaii Tourism Authority for its programs, most of which are focused on advertising and marketing, as well as some vital cultural items such as hula halau, Lei Day, etc. That allocation was cut back to 35 percent in years past, but to get tourism back on its feet as soon as possible, it needs to be restored to 37.9 percent.

Why inject scarce funds into tourism marketing? Because marketing is what it takes to attract visitors. During difficult economic times, when fewer people are traveling, it is essential to attract a higher percentage of those who do travel in order to keep Hawaii’s most important economic engine from sputtering and “running out of gas.” Marketing is the only way to do this.

I have long said that “In Hawaii, Tourism is Everybody’s Business.” Why? Because Travel & Tourism directly provides about 25 percent of Hawaii’s Gross State Product, 25 percent of its tax revenues, and about 33 percent of its jobs. The degree to which Hawaii’s overall economic well-being depends on the health of Travel & Tourism stares us in the face at times like these when visitors are scarce.

Investing in Travel & Tourism is the fastest road to economic recovery—as fast or faster than the proposed government capital expenditure programs around which people are rallying. We need both efforts to keep people working—government projects AND tourism marketing.