Fix Hawai‘i’s Travel & Tourism Industry First

By Dr. Richard Kelley

Richard Lim, the new director of Hawai‘i’s Department of Business, Economic Development and Tourism (DBEDT), claims that tourism in Hawai‘i has remained “stagnant” for the past 20 years and can no longer be counted upon to move our local economy into a prosperous future. He calls for the development of new industries in Hawai‘i to supplement, if not replace, tourism.

In response, Richard Borreca, columnist for the Honolulu Star-Advertiser, points out the importance of our Travel & Tourism industry and says “It’s Too Soon to Throw Isle Visitor Industry Under the Bus!” We agree with Borreca. Tourism is still Hawai‘i’s “economic engine,” and there are many ways to strengthen its future. Rather than letting our No. 1 industry decline, it’s time to reinvigorate it. If we can improve our marketing efforts, keep the cost of a Hawai‘i vacation competitive, and provide a superior visitor experience, this industry – and the people of this state – will enjoy many more years of prosperity.

Yes, tourism in Hawai‘i is stagnant

Lim made some great points about our current situation. He is correct that our tourism industry has been stagnant for many years. After World War II, Hawai‘i enjoyed four decades of exponential growth in Travel & Tourism, but in the past two decades the number of visitors has hovered in the range of 6.5 million (1991) to 7.5 million (2006) arrivals a year.

In 2007, 2008 and 2009 there was a drop in arrivals which was clearly related to the problems facing the U.S. and global economies. Fortunately, visitor arrivals bounced back to 7.1 million in 2010 and have continued to climb significantly over the first four months of 2011, with arrivals up nearly 9 percent and visitor spending up almost 18 percent so far this year.

But tourism is still our “economic engine”

We all recognize that tourism is by far our biggest industry, and it generates more than $1 billion a month in revenue for our state. It is also the source of one out of every three jobs in Hawai‘i. These jobs are for all levels of skill, training, and experience, from entry level to top executive level, from no prior experience to advanced, cutting-edge technology skills. AND, these are jobs that stay in Hawai‘i. They cannot be easily exported or outsourced to another area of the world where wage rates are lower. Actually, most of them cannot be outsourced at all as long as the tourists keep coming. These jobs can only be outsourced if Hawai‘i allows itself to become a less attractive destination than its many competitors, resulting in “our” visitors choosing other places to vacation.

So until something far better comes along, Hawai‘i’s Travel & Tourism industry will remain our “Golden Goose,” laying 14-karat eggs that support so much of what makes Hawai‘i a great place to live, work and raise a family.

We can strengthen our marketing

Like any business or industry, we must constantly market our goods and services to the world in order to get customers. Unfortunately, in recent years there has been a significant reduction of state funds available for advertising and marketing Hawai‘i as a travel destination.

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In 1997, I was a member of the Economic Revitalization Task Force convened by Governor Ben Cayetano. The Task Force recognized that the then-current level of state tourism marketing dollars (about $25 million a year) was totally inadequate to effectively compete in the global marketplace. Accordingly, the Task Force recommended that the Transient Accommodations Tax (TAT or “hotel room tax”) be increased from 6 percent to 7 percent and that 3 percentage points of the tax, then about $60 million annually, be dedicated to tourism marketing. The total dollars for marketing would increase as inflation drove up room rates in future years. A new state agency, the Hawai‘i Tourism Authority (HTA), would manage the funds.¹

This concept was approved by the Legislature and, with more marketing funds available, visitor arrivals began to rise once again.

Unfortunately, the Legislature later capped the TAT dollars dedicated to marketing at not much more than the 1998 level. For the 2011-2012 fiscal year, the portion of the projected $290 million total TAT collections that will be dedicated to tourism marketing is only $69 million. In terms of 1998 dollars, that buys only $52 million worth of marketing. In 2011, it would take about $80 million dollars to buy the equivalent of $60 million of 1998 marketing services.

In other words, viewed in inflation-adjusted terms that give the true picture, the state’s current contribution to Travel & Tourism marketing is nearly 15 percent less than it was in 1998. Over the same period, unfortunately, the marketing challenge has grown substantially, so we now face the task of literally having to do more with less.

But that’s only the beginning. The Legislature has mandated that the HTA use the $69 million not only for marketing but a number of other cultural and community activities. These are admirable but they are not necessarily marketing activities. This further weakens Hawai‘i’s ability to be heard in the growing world Travel & Tourism marketplace. Unless we spend the money to market Hawai‘i, our share of the world’s travelers will continue to drop.

**We can keep the cost of a Hawai‘i vacation competitive**

Once our potential visitors hear about us, they will only travel here if the price of their vacation is affordable and competitive with other destinations. There are some great bargains out there in places like Mexico and Southeast Asia, to name just a couple of competing destinations.

Every tax that the city, county or state levies on the industry gets passed along to the customer, raising the price of a vacation, and making us less competitive. Unfortunately, Hawai‘i has steadily increased taxes that target visitors.

The TAT has been repeatedly jacked up over the past two decades from 6 percent to 7½ percent to 8¼ percent and now to 9¼ percent. That’s a whopping 54 percent increase.

Moreover, the state’s General Excise Tax (GET) was raised to 4.712 percent on O‘ahu, so that Waikīkī tourists are now looking at a tax rate of 13.962 percent on their hotel rooms.

While this is only slightly higher than the national average of 13.73 percent (according to the National Business Travel Association), it hits travelers a lot harder because room rates in Hawai‘i are much higher than the $97 national average. Room rates average $185 statewide and $170 in Waikīkī. As a result, the average daily tax tourists pay on their rooms in Hawai‘i can be almost double the national average of $13.31, depending on which island they are visiting.

Of course, one of the reasons hotel rates in Hawai‘i are so high is that they reflect the special high property tax rates imposed on hotels. Hotels must also pay Hawai‘i’s compounding General Excise Tax on all goods and services they buy – from carpets to computers and wallpaper to toilet paper. The pyramiding nature of the GET boosts its cost to hotels – and to all Hawai‘i businesses and residents – far beyond its apparent value. In fact, the Tax Foundation of Hawai‘i estimates that thanks to this pyramiding, the state government collects as much from the 4 percent GET as it would get from a straight sales tax of 10 or 11 percent.²

Today there is even a tax on complimentary or “comp” rooms. Hotels market themselves by inviting travel agents, corporate travel managers, convention planners, and tour operators to come to Hawai‘i and familiarize themselves with our state’s natural beauty and tourism resources. Hotel stays have been given to these members of our industry on a complimentary basis for as long as I can remember. Somehow, this bothered some members of the Legislature who retaliated this year by imposing a $10 per night tax on a room occupied on a “comp” basis. It’s hard to believe, but in Hawai‘i, our lawmakers are so innovative they’ve even figured out how to tax something that’s free!

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¹ See Fix Hawai‘i’s Travel & Tourism Industry First, p. 1

² See Fix Hawai‘i’s Travel & Tourism Industry First, p. 2
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Unfortunately, this tax on a comp room makes our job of trying to inject new energy into Hawai‘i’s “stagnant” visitor industry even harder.

Our customers are also taxed at every transaction throughout their stay. The taxes on rental cars have been rising at a particularly alarming rate. That tax has gone from $2 per day to $3 per day to $4 per day. That’s on top of the GET. And Governor Neil Abercrombie now has a bill on his desk that will nearly double the rental car tax, raising it to $7.50 per day. Probably the vast majority of automobile rentals are made by visitors but, alas, this 88 percent tax increase, if signed, will also hit local residents hard whenever they travel to a neighbor island.

When viewed separately, each of these taxes may appear reasonable and appropriate. But add them all together, and continue ratcheting them up year after year, and pretty soon travelers will decide to vacation elsewhere.

The lessons I learned in Economics 101 are still valid. When costs go up, volume goes down. So if taxes on Travel & Tourism go up, the number of tourists goes down. And so do our economy … jobs … and even the government’s tax base.

**We can make the vacation experience better**

Our visitors expect clean attractions, safe roads, clean bathrooms, and either new or well-maintained buildings. We all have a responsibility to maintain the infrastructure used by both visitors and residents.

There is no question in my mind that all levels of government have failed to maintain and improve Hawai‘i’s harbors, airports, parks, sewers, roads and beaches to the standards visitors expect in today’s global tourism marketplace. The rapidly approaching APEC meetings have stimulated our governments to try correcting some of these deficiencies, particularly on O‘ahu. It’s been a long time since Waikiki’s sidewalks and roads have looked this good and, if we are serious about Travel & Tourism, this should be the standard from now on.

**Government needs to make Travel & Tourism a real top priority for the state**

Things are somewhat better now than they used to be. I can remember that it was years before the state Department of Business and Economic Development changed its name and focus to the Department of Business, Economic Development and Tourism. However, if state government was really serious about Travel & Tourism, there would be a separate Department of Tourism and its director would be a member of the governor’s cabinet.

**Government needs to better support entrepreneurs and developers who would like to add to and improve Hawai‘i’s tourism facilities**

There are many examples. The most recent was the sad tale of the effort by a private company investing its own money to run the high-speed Superferry between Hawai‘i’s islands. The company, its vision, its jobs, and its bank account were bled to death by a thousand cuts of bureaucratic red tape and regulations. I remember no one in government providing effective support and leadership.

The development of the Hawai‘i Convention Center took 15 years to accomplish. There was support at the governor’s office and by some in the Legislature, but while others in government dithered or fought the concept, the preferred site on a portion of the grounds at Ft. DeRussy in the center of Waikiki was lost and costs soared.

I know from personal experience that during the past two decades particularly it has been very, very difficult and expensive for developers and investors to obtain government permits to renovate, improve or add to the private sector’s tourism plant or infrastructure.

**We can make it easier to get to Hawai‘i**

Some of our potential visitors are still deterred by the difficulty in getting a tourist visa. The government needs to do more to make it easier for foreign visitors to come to Hawai‘i.

Many government leaders, including former Governor Linda Lingle and former Honolulu Mayor Mufi Hannemann, have recognized the rapid growth in the vast tourism markets in Asia and their potential for Hawai‘i, but government has yet to really focus on and solve the issue of restrictive federal visa regulations. The difficulties encountered when trying to obtain a visa to travel to the U.S. have discouraged many of those living in China – the world’s largest and fastest-growing outbound tourism market – to come to Hawai‘i. This issue needs a “full court press” by Hawai‘i’s government leaders to help solve Hawai‘i’s tourism stagnation.

Perhaps harder but even more important, we must join together to support changing federal cabotage regulations, which restrict the access of foreign airlines that would like to provide service to Hawai‘i en route to the U.S. mainland.

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We can’t change the weather, but we all need to work together to improve Hawai‘i’s business climate.

A few paragraphs ago I cited taxes as one of the reasons hotel rates in Hawai‘i are so high. Another important reason is the high cost of doing business in this state. There are thousands of daily decisions, regulations and examples of bureaucratic red tape that shape the perception of Hawaii’s business climate. The current issue of Chief Executive magazine\(^3\) rates Hawai‘i’s business climate as number 43 of the 50 states. That puts us in the bottom eight, along with economically ailing Massachusetts, New Jersey, New York, and last place California. Hawai‘i is down one place from last year, so things are not improving.

**Summary**

I applaud Richard Lim’s concern for Hawai‘i’s future and his willingness to ask serious questions about our tourism industry. Everyone in the Outrigger ‘ohana is concerned too, as I certainly am. I believe that the most prudent course of action is for all of us to work together to improve the health of the industry. Strengthening our marketing efforts, keeping taxes down and the price of a family vacation affordable, and maintaining our infrastructure will pay off handsomely. And taking Travel and Tourism to new heights will give us the base needed to then develop many, many new industries and opportunities, as Lim suggests.

But for right now, tourism is still … **everybody’s business!** 🌴

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