



GOV. MSG. NO. 674

EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

May 7, 2009

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

I am transmitting herewith SB1111 SD1 HD1 CD1, without my approval, and with the statement of objections relating to the measure.

SB1111 SD1 HD1 CD1

A BILL FOR AN ACT
RELATING TO TAXATION.

Sincerely,



LINDA LINGLE

EXECUTIVE CHAMBERS

HONOLULU

May 7, 2009

STATEMENT OF OBJECTIONS TO SENATE BILL NO. 1111

Honorable Members
Twenty-Fifth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, Senate Bill No. 1111, entitled "A Bill for an Act Relating to Taxation."

The purposes of this bill are to increase the transient accommodations tax from 7.25 percent to 8.25 percent for the period July 1, 2009 to July 30, 2010, and to further increase the tax to 9.25 percent from July 1, 2010 to June 30, 2015. The money from this tax increase would be deposited into the general fund.

This bill is objectionable because an increase in the Transient Accommodations Tax will prolong our state's ability to recover its economic vitality. It will raise the cost of visiting Hawaii, discourage both leisure and business travelers, and comes at a time when Hawaii's hospitality industry is experiencing its steepest decline in 22 years.

Hawaii's economy cannot recover from the current economic recession without a recovery in tourism. Almost three-quarters of private sector employment in the State is linked, either directly or indirectly, to tourism. The 66.9 percent statewide hotel occupancy rate recorded this March represents a 16.6 percent plunge from a year earlier. It is the 13th consecutive monthly decline in an industry that employs over 100,000 residents of our state. These occupancy rates were only

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SENATE BILL NO. 1111
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achieved after hotels and rental units slashed daily room rates more than 12 percent. Despite the efforts to keep hotel rooms occupied, the visitor industry has lost 6,200 jobs in the past 12 months. As our hospitality industry fights to keep workers employed, we should not make their job harder by raising the taxes they must pay to the State.

Some have argued that a Transient Accommodations Tax increase will not discourage visitors since a tax of 8.25 or 9.25 percent is still less than the double-digit room tax rates seen on the mainland. However, it must be noted that even as room rates continue to fall in Hawaii, the average room rate statewide is \$170 per night, whereas the average room rate nationwide is only \$100 per night. In real dollars, tourists have to pay more to come to Hawaii. According to the American Hotel and Lodging Foundation, Hawaii visitors pay an average of \$25.79 per night in lodging taxes versus the national average of \$12.69.

Passage of this bill has resulted in adverse coverage in the national press that has resulted in comments that Hawaii is trying to take our economic frustrations out on our visitors. As the State of Aloha that depends upon our hospitality for our economic well-being, this is the wrong message to be sending.

For the foregoing reasons, I am returning Senate Bill No. 1111 without my approval.

Respectfully,


LINDA LINGLE
Governor of Hawaii

A BILL FOR AN ACT

RELATING TO TAXATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

- 1 SECTION 1. Section 237D-2, Hawaii Revised Statutes, is
2 amended to read as follows:
- 3 "**§237D-2 Imposition and rates.** (a) There is levied and
4 shall be assessed and collected each month a tax of:
- 5 (1) Five per cent for the period beginning on January 1,
6 1987, to June 30, 1994;
- 7 (2) Six per cent for the period beginning July 1, 1994, to
8 December 31, 1998; and
- 9 (3) 7.25 per cent for the period beginning on January 1,
10 1999, and thereafter;
- 11 on the gross rental or gross rental proceeds derived from
12 furnishing transient accommodations.
- 13 (b) There is levied and shall be assessed and collected
14 each month an additional:
- 15 (1) One per cent for the period beginning July 1, 2009, to
16 June 30, 2010; and



1 (2) Two per cent for the period beginning July 1, 2010, to
2 June 30, 2015;
3 on the gross rental or gross rental proceeds derived from
4 furnishing transient accommodations. The rate levied and
5 assessed under this subsection shall be additional to the rate
6 levied and assessed under section 237D-2(a)(3).

7 [~~(b)~~] (c) Every operator shall pay to the State the tax
8 imposed by [~~subsection~~] subsections (a) and (b) as provided in
9 this chapter.

10 [~~(e)~~] (d) There is levied and shall be assessed and
11 collected each month, on the occupant of a resort time share
12 vacation unit, a transient accommodations tax of 7.25 per cent
13 on the fair market rental value.

14 [~~(d)~~] (e) Every plan manager shall be liable for and pay
15 to the State the transient accommodations tax imposed by
16 subsection [~~(e)~~] (d) as provided in this chapter. Every resort
17 time share vacation plan shall be represented by a plan manager
18 who shall be subject to this chapter."

19 SECTION 2. Section 237D-6.5, Hawaii Revised Statutes, is
20 amended by amending subsection (b) to read as follows:

21 "(b) Revenues collected under this chapter, except for
22 revenues collected under section 237D-2(b), shall be distributed



1 as follows, with the excess revenues to be deposited into the
2 general fund:

3 (1) 17.3 per cent of the revenues collected under this
4 chapter shall be deposited into the convention center
5 enterprise special fund established under section
6 201B-8; provided that beginning January 1, 2002, if
7 the amount of the revenue collected under this
8 paragraph exceeds \$33,000,000 in any calendar year,
9 revenues collected in excess of \$33,000,000 shall be
10 deposited into the general fund;

11 (2) 34.2 per cent of the revenues collected under this
12 chapter shall be deposited into the tourism special
13 fund established under section 201B-11 for tourism
14 promotion and visitor industry research; provided that
15 beginning on July 1, 2002, of the first \$1,000,000 in
16 revenues deposited:

17 (A) Ninety per cent shall be deposited into the state
18 parks special fund established in section 184-
19 3.4; and

20 (B) Ten per cent shall be deposited into the special
21 land and development fund established in section



1 171-19 for the Hawaii statewide trail and access
2 program;
3 provided that of the 34.2 per cent, 0.5 per cent shall
4 be transferred to a sub-account in the tourism special
5 fund to provide funding for a safety and security
6 budget, in accordance with the Hawaii tourism
7 strategic plan 2005-2015; provided further that of the
8 revenues remaining in the tourism special fund after
9 revenues have been deposited as provided in this
10 paragraph and except for any sum authorized by the
11 legislature for expenditure from revenues subject to
12 this paragraph, beginning July 1, 2007, funds shall be
13 deposited into the tourism emergency trust fund,
14 established in section 201B-10, in a manner sufficient
15 to maintain a fund balance of \$5,000,000 in the
16 tourism emergency trust fund; and

- 17 (3) 44.8 per cent of the revenues collected under this
18 chapter shall be transferred as follows: Kauai county
19 shall receive 14.5 per cent, Hawaii county shall
20 receive 18.6 per cent, city and county of Honolulu
21 shall receive 44.1 per cent, and Maui county shall
22 receive 22.8 per cent.



1 Revenues collected under section 237D-2(b) shall be
2 deposited into the general fund. All transient accommodations
3 taxes shall be paid into the state treasury each month within
4 ten days after collection and shall be kept by the state
5 director of finance in special accounts for distribution as
6 provided in this subsection."

7 SECTION 3. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 4. This Act shall take effect on July 1, 2009, and
10 shall be repealed on June 30, 2015; provided that sections
11 237D-2 and 237D-6.5, Hawaii Revised Statutes, shall be reenacted
12 in the form in which they read on June 30, 2009.

