

JOSH GREEN, M.D.
GOVERNOR

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STATE OF HAWAII
DEPARTMENT OF TAXATION

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GARY S. SUGANUMA
DIRECTOR

KRISTEN M. R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1375, Relating to Tourism

BEFORE THE:

House Committee on Tourism / House Committee on Economic Development

DATE: Thursday, February 2, 2023

TIME: 11:00 a.m.

LOCATION: State Capitol, Room 423

Chair Quinlan, Vice-Chair Hussey-Burdick, and Members of the Committee on Tourism; and Chair Holt, Vice Chair Lamosao, and Members of the Committee on Economic Development:

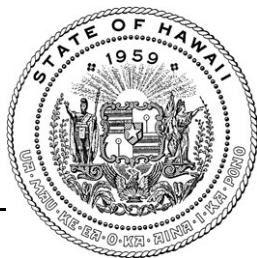
The Department of Taxation ("Department") offers the following comments regarding H.B. 1375 for your consideration.

H.B. 1375 establishes the Destination Management Agency ("Agency"), a body corporate and a public instrumentality of the State. Section 2 of the bill exempts all revenues and receipts derived by the Agency from any project or a project agreement or other agreement pertaining thereto from all state taxation. Section 9 on page 45 of the bill exempts amounts received by the operator of the Hawai'i convention center for reimbursement of costs or advances made pursuant to a contract with the Agency from general excise tax. Section 10 on page 47 of the bill amends section 237D-6.5, Hawaii Revised Statutes, by allocating \$79 million in transient accommodations tax (TAT) revenues to a newly-created tourism special fund. The measure takes effect on June 29, 2023.

The Department notes that, based on the current effective date of the bill, the allocation of \$79 million in TAT revenues to the tourism special fund will become effective beginning in the fiscal year ending on June 30, 2023. If the intent is for the allocation of \$79 million to the tourism special fund to apply beginning July 1, 2023, the Department suggests amending the effective date in section 16 on page 52 of the bill.

The Department further notes that it is able to administer the tax provisions in this bill by the current effective date.

Thank you for the opportunity to provide comments on this measure.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKĀ'I

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Statement of
CHRIS J. SADAYASU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEES ON TOURISM AND ECONOMIC DEVELOPMENT

Thursday, February 2, 2023
11:00 AM
State Capitol, Conference Room 423

In consideration of
HB1375
RELATING TO TOURISM.

Chairs Quinlan and Holt, Vice Chairs Hussey-Burdick and Lamosao, and members of the Committees.

The Department of Business, Economic Development and Tourism (DBEDT) offers **comments** on HB1375, which establishes a destination management agency, including its director and commission, and tourism special fund.

DBEDT affirms its commitment to collaborate with the Committees should it be determined that a destination management agency will be established and will participate in any discussions related to its potential role and responsibilities.

Thank you for the opportunity to comment.

OFFICE OF INFORMATION PRACTICES

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To: House Committees on Tourism and on Economic Development

From: Cheryl Kakazu Park, Director

Date: February 2, 2023, 11:00 a.m.
State Capitol, Conference Room 423

Re: Testimony on H.B. No. 1375
Relating to Tourism

Thank you for the opportunity to submit testimony on this bill, which would repeal the Hawaii Tourism Authority (HTA) and replace it with a new Destination Management Agency (DMA). The Office of Information Practices (OIP) takes no position on the substance of this bill, but offers comments on the proposed confidentiality provision and the special executive sessions authorized for the new DMA Commission and a **proposed amendment** to align the executive session provisions more closely to the provisions currently authorized for the HTA Board.

First, OIP notes that the confidentiality provision for certain DMA information in proposed subsection __-9(d) on page 15 is the same as an existing confidentiality provision for certain HTA information in subsection 201B-7(d), HRS. Thus, its inclusion here would not change the treatment of that information in terms of public access.

Second, OIP notes that the special executive session purposes for the DMA Commission set out in proposed section __-5 on bill pages 8-9 is almost the same as an executive session provision for the HTA Board in section 201B-4, HRS. Proposed subsection (a)(1), allowing an executive session for information

“proprietary to a particular enterprise or the disclosure of which might be harmful to the business interests of the enterprise,” is identical to existing law. While OIP would prefer a more narrowly written executive session purpose, the proposed one simply follows the current law and thus OIP does not object to it.

Proposed subsection (a)(2), allowing an executive session for “[i]nformation that is necessary to protect Hawaii’s competitive advantage as a visitor destination,” omits the current law’s proviso that “information relating to marketing plans and strategies may be disclosed after the execution of the marketing plans and strategies.” **OIP questions the reason for this change from the current law, and in the absence of a compelling explanation recommends that the measure be amended to restore the missing language.** As amended, bill page 9, lines 4-5 would read:

- (2) Information that is necessary to protect Hawaii’s competitive advantage as a visitor destination, provided that information relating to marketing plans and strategies may be disclosed after the execution of the marketing plans and strategies,

Thank you for considering OIP’s testimony.



HAWAI'I LODGING & TOURISM
A S S O C I A T I O N

Testimony of
Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

House Committee on Tourism
House Committee on Economic Development
House Bill 1375
February 2, 2023

Chair Quinlan, Chair Holt and members of the Committees, mahalo for the opportunity to provide comments on behalf of the Hawai'i Lodging & Tourism Association, the state's oldest and largest private sector visitor industry organization.

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers—has always enjoyed a positive, productive, and collaborative working relationship with the Hawai'i Tourism Authority under its present model.

That being said, it is clear that many in our community want to have a frank discussion regarding HTA, its duties, its governance, and the role it will fulfill going forward. We feel strongly that this conversation—which should encompass all of HTA's duties including destination management and also visitor marketing—is warranted and that the legislative process should be allowed to play out. We further feel that this discussion is one that should be held as transparently as possible.

We also believe that allowing this to occur will result in increased recognition and appreciation for tourism's importance to our community and our economy. Moreover, careful consideration of the State's tourism role will only improve the quality and efficiency of the State's tourism advocacy, which must strike a fine balance between the needs of residents and travelers alike.

Mahalo for the opportunity to offer these comments.

THE CIVIL BEAT
LAW CENTER FOR THE PUBLIC INTEREST

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House Committee on Tourism
Honorable Sean Quinlan, Chair
Honorable Natalia Hussey-Burdick, Vice Chair

House Committee on Economic Development
Honorable Daniel Holt, Chair
Honorable Rachele F. Lamosao, Vice Chair

RE: Testimony Commenting on H.B. 1375, Relating to Tourism
Hearing: February 2, 2023 at 11:00 a.m.

Dear Chairs and Members of the Committees:

My name is Brian Black. I am the Executive Director of the Civil Beat Law Center for the Public Interest, a nonprofit organization whose primary mission concerns solutions that promote governmental transparency. Thank you for the opportunity to submit testimony **commenting on the reduced transparency provided by H.B. 1375.**

Under existing law, the Hawai'i Tourism Authority has a special exemption from the Sunshine Law to hold closed door meetings to receive:

Information that is necessary to protect Hawaii's competitive advantage as a visitor destination; provided that information relating to marketing plans and strategies may be disclosed after the execution of the marketing plans and strategies.

HRS § 201B-4 (emphasis added). The comparable provision for the newly created Destination Management Commission, however, excludes the italicized language. Sec. -5(a)(2). There is no reason to withhold information about anticipated plans and strategies when those plans and strategies have been finalized.

The Law Center respectfully requests that the Committees amend H.B. 1375 to include the italicized language from existing law in Section -5(a)(2).

Thank you again for the opportunity to provide comments and **proposed amendments** on H.B. 1375.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: TRANSIENT ACCOMMODATIONS, GENERAL EXCISE, Replace Hawaii Tourism Authority with Destination Management Agency

BILL NUMBER: HB 1375

INTRODUCED BY: HB by QUINLAN, AMATO, HUSSEY-BURDICK, KAPELA, KOBAYASHI, LAMOSAO, LOWEN, MARTEN, PERRUSO, POEPOE, Ganaden, Martinez

EXECUTIVE SUMMARY: Establishes the powers, duties, and responsibilities of the destination management agency, including its director and commission. Establishes the tourism special fund, which receives an allocation from transient accommodations tax revenue. Repeals the Hawai'i tourism authority (HTA).

SYNOPSIS: As related to the tax laws:

Amends section 237-24.75, HRS, to substitute the new agency for the HTA in paragraph (2).

Amends section 237D-6.5, HRS, to alter the earmarks on the transient accommodations tax as follows:

- Allocates \$79 million to the tourism special fund. Of the \$79 million:
 - \$1 million is for the operation of a Hawaiian center and the museum of Hawaiian music and dance.
 - 0.5% is to be transferred to a sub-account to fund a safety and security budget.
 - Funds will be deposited into the tourism emergency special fund sufficient to keep that fund at a \$5 million balance.
- Previously established earmarks for those items are repealed.

EFFECTIVE DATE: June 29, 2023.

STAFF COMMENTS: Our comments will be limited to the effect on the tax laws from the amendment to section 237D-6.5, HRS.

As with any earmarking of revenues, the legislature will be preapproving each of the initiatives fed by the tax earmark, so expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether too little or too much revenue has been diverted from other priorities in the state budget.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers would have to evaluate the real or actual needs of each program and compare them against other pressing issues of the day such as

Re: HB 1375

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crumbling education infrastructure, economic devastation wrought by COVID-19, and the continual danger of invasive species.

Digested: 1/31/2023

Testimony of John M. Knox, PhD, on HB1375
Hawai'i House of Representatives Tourism Committee, February 2, 2023

Aloha Chair Quinlan, Vice-Chair Hussey-Burdick, and Committee members, I'm John Knox, a retired socioeconomic researcher involved with questions of tourism impacts, resident attitudes, and tourism governance issues for over 40 years. Additionally, I served on the Hawai'i State Tax Review Commission, and am familiar with challenges facing State commissions.

I offer comments on HB1375, as I believe some issues need clarification in regard to creating a "Destination Management Agency" (DMA). By the way, it's a good name, and consistent with both the current HTA strategic plan and terminology being used elsewhere.

My principal concern involves the bill's concept of a three-person Commission – apparently modeled after the Public Utilities Commission – to head the DMA, rather than a Board of Directors. These three positions are clearly intended to be full-time.

If this Committee is inclined to create a full-time Commission, I respectfully request that the bill be amended to specify both required qualifications and duties/responsibilities for the DMA Commissioners. The enabling legislation for the PUC has language about qualifications for the PUC Commissioners, and it would seem useful for DMA Commissioners as well. It may also be appropriate to specify different stakeholder sectors to be represented by each Commissioner.

HB1375 does specify Powers and Duties for the overall agency (mostly identical to those for the HTA), but does not specify functions for Commissioners, beyond choosing a director, approving staff hires, and administering the special fund.

The DMA Commission, like the present HTA Board, would be subject to the Sunshine Law. While this increases transparency for volunteer boards, it constrains the ability of full-time Commissioners to have communications outside formal meetings. This further clouds understanding of what roles full-time Commissioners might (or might not) play, compared to the responsibilities of the DMA director and staff.

The proposed DMA would have responsibilities very similar to those of the HTA. An objective should be added to HB1375 to study how to strengthen DMA's "destination management" focus (as opposed to continued promotional activity), in ways responsive to concerns of both the industry and of affected communities.

Finally, I would respectfully request that HB1381 be scheduled for a hearing. HB1381 would fund a global study of destination management governance models, determine several alternative structures that might be feasible in Hawai'i, and obtain substantial public review and input from residents, industry, and other stakeholders.

Passage of HB1375 would be a decision about changing Hawai'i's tourism governance model in advance of either studying alternatives or a thorough stakeholder input process. However, if this is done, it should not rule out learning what other destinations experiencing "overtourism" have done to change governance systems to manage their destinations better ... or with getting substantial stakeholder input in a very public way. If the Committee chooses to advance HB1375, please also consider HB1381 and its objectives.

Thank you for the opportunity to submit these comments.

I strongly support the passage of HB1375, which would repeal the Hawaii Tourism Authority (HTA) and replace it with a new Destination Management Agency that includes visitor educational and Hawaiian cultural components. Frankly, this action is long overdue as the HTA no longer serves a useful public purpose. Too many people already want to visit Hawaii on their own and they do not need the HTA to encourage them. Over-tourism is damaging our lands and waters and the wellbeing of our people. In fact, Fodor's Travel last month put Maui on its "No List" of places tourists may want to avoid in 2023 due to the problems caused by and ill effects of over tourism and our water problems. What is needed now is a management organization that will promote sustainable tourism policies and practices in Hawaii, which I would like to see meet the criteria and standards of the Global Sustainable Tourism Council, the gold standard for sustainable tourism internationally. One comment: I'd like to see the bill amended to strengthen the discussion of the role of county related destination management programs, and how they could work in tandem with the new Destination Management Agency.

HB-1375

Submitted on: 2/2/2023 12:15:45 AM

Testimony for TOU on 2/2/2023 11:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Axel Beers	Individual	Support	Written Testimony Only

Comments:

I support HB1375 for the following reasons:

- While the HTA has been successful in attracting record numbers of visitors to Hawai'i, residents now grapple with the impacts of overtourism. For many of us, the HTA has become the face of overtourism. Ironically, the brand management agency has developed a bad brand for itself. This, repealing the HTA would help to regain public trust in the State's tourism management efforts
- This bill changes the main priority from development of tourism marketing plans to the creation of visitor education marketing plans. This is a positive step toward ensuring tourism is better for resident quality of life and preservation of culture and natural resources.
- The make up of the board in this bill does not require the inclusion of those in the industry who may have financial interests in marketing tourism. This will better allow a board of public servants who will make decisions based on the public good.

Thank you for the opportunity to testify in support of HB1375.

HB-1375

Submitted on: 2/2/2023 7:17:45 AM

Testimony for TOU on 2/2/2023 11:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Scott Young MD	Chair of Maui Sustainable Tourism Committee	Support	Written Testimony Only

Comments:

This is exactly what is needed.! The tourism issue is so important to our economy and we are suffering over tourism with too many tourists that are destroying the golden goose and golden egg of tourism that supports all of us. We have reached the tipping point where we have too many tourists and we do not need to market to get more tourism growth. The point of the HTA is a marketing organization and cannot be switched to management because the people do not have the correct perspective in general. We need a management organization and starting with something new that is focused on managing tourism so that we prevent the complete destruction of the environment that attracts the tourists and that feeds our people and supports the tourism industry not to mention maintaining the quality of life for the residents. It is a win win proposition to manage tourism appropriately otherwise in a few years or less we won't have a viable tourism industry anymore.FODOR in its recent travel magazine has looked at this worldwide and determined that Maui as now become one of the worst places to go for over tourism ranking in the top 10 of undesirable tourist destinations and so we have already internationally on the world stage become a place not to go. We must have quality over quantity tourism. This is the only way we can preserve this resource and continue to support our economy. Before it becomes so widely known then Hawaii is not a good destination to go to we need two cut down on our tourist volume so that the beaches remain desirable and give them the chance to regenerate like happened during the pandemic. The industry will never self regulate we need to manage this for them because they are competing for business and their model does not allow them to realize the importance of managing the numbers and having quality over quantity tourism. Our committee has been working on this for several years now and we have managed to get a number of important quality over quantity legislation in place in Maui and working to find ways to decrease our tourist numbers and at the same time increase the amount spent per tourist and the quality of our tourism. Thank you so much for boldly bringing forward this piece of legislation as I think this is the right way to go as trying to change the HTA into a management organization will take a long time and never be effective given the history and culture of the HTA. Genesis Young MD chair of the sustainable tourism committee Maui



LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.



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Governor

John De Fries
President and Chief Executive Officer

Statement of
JOHN DE FRIES
Hawai'i Tourism Authority
before the
COMMITTEES ON TOURISM and ECONOMIC DEVELOPMENT

February 2, 2023
11:00 a.m.
State Capitol Conference Room 423 & Videoconference

In consideration of
HOUSE BILL NO. 1375
RELATING TO TOURISM

Aloha Chairs Quinlan and Holt, Vice Chairs Hussey-Burdick and Lamosao, and members of the Committees on Tourism and Economic Development,

The Hawai'i Tourism Authority (HTA) appreciates the opportunity to offer comments on HB1375, which would establish a new destination management agency to assume the rights, powers, functions, and duties of HTA.

Over the past three years, Hawai'i experienced and survived a massive economic collapse thanks to a coordinated effort between the private and public sectors. In concert with our partners and stakeholders, and led by our volunteer board of directors with a wealth of industry and community experience, HTA has been guiding and supporting the recovery of our tourism industry which has helped resuscitate Hawai'i's overall economy ahead of projections.

Tourism is the largest sector of Hawai'i's economy, and therefore a major contributor of tax revenues to fund important state priorities. In 2022, preliminary numbers show that Hawai'i tourism topped 2019 – the previous high water mark – in visitor spending (\$19.3 billion, +8.9%) and state tax revenue (\$2.21 billion) with fewer visitor arrivals (9.25 million, -11%).

It is important to note that this strong recovery was primarily powered by the U.S. market, where HTA has maintained continuity in our visitor education, brand management, and support services even through the contested process to procure the next contract for that market.

In addition to HTA's spending-related key performance indicators, we also track visitor satisfaction and resident sentiment. Both measures are trending in the right direction.

HTA's message to prospective visitors around the world is **Mālama Hawai'i**: an invitation for them to join kama'āina in caring for our beloved home. Setting that intention and expectation, combined with robust visitor education through all stages of the journey, is our strategy to target

and welcome visitors who prioritize the environment and being mindful guests – all key to achieving our goal of a regenerative model of tourism through destination management.

We recognize that the impacts of tourism are real and require management. As Hawai'i emerges from the pandemic, HTA continues its pivot to destination management initiated just before the onset of the pandemic. The pivot started with the adoption of our current strategic plan, and was further refined in the community-generated Destination Management Action Plans for each island.

Ahead of making major structural changes to the agency responsible for managing Hawai'i's visitor industry, the completion of a study on alternative models of tourism governance as contemplated in HB1381 would be a valuable, prudent approach to consider.

We look forward to the vigorous debate this measure is likely to inspire before your committees, and we appreciate the opportunity to offer these comments on HB1375. Mahalo.