GRASSROOT
INSTITUTE OF HAWAII

May 28, 2020
2:00 p.m.
Online video conference

**To: Council on Revenues**
**Kurt Kawafuchi, Chair**
**Marilyn M. Niwao, Vice chair**

**From: Grassroot Institute of Hawaii**
**Joe Kent, Executive vice president**

***Comments Only***

Dear Chair and Council members:

The Grassroot Institute of Hawaii would like to offer its comments on the Council on Revenues general fund revenue forecast.

Hawaii tourism might take years to recover, so the council must make sure it doesn't offer any false hope to lawmakers about the status of the state budget.

According to the attached report by Tourism Economics,[1] Hawaii likely will take longer than other states to recover from the loss of tourism, primarily because Hawaii relies significantly more than other states on international travelers and visitors willing to travel long distances. Arrivals of these types of visitors are not expected to return as quickly to the levels before the coronavirus crisis as visitors willing to travel short distances to domestic destinations, according to the report.

The report estimates that the number of international visitors to Honolulu in 2020 will be almost 50% less than in 2019, and not fully recover to pre-coronavirus levels until 2025 — and that's assuming that all travel restrictions will be gradually lifted this year.[2]

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[1] Sarah-Jane Trimble, et al., "COVID-19: pandemic impacts on North American city tourism," Tourism Economics, May 7, 2020.
[2] In a May 26, 2020, email to the Grassroot Institute of Hawaii, Tourism Economics economist and lead author of the report Sarah-Jane Trimble wrote:

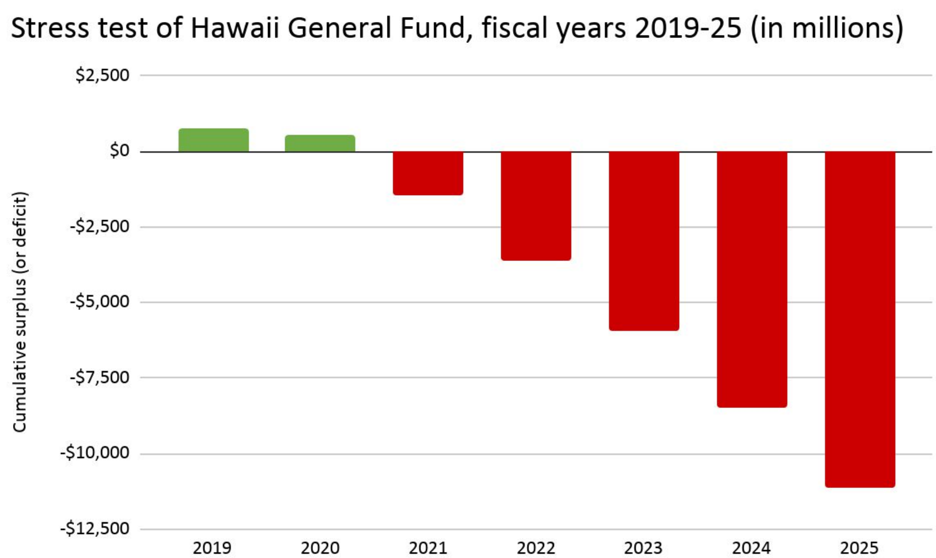
"We do not currently assume that restrictions will last for the duration of the year, but we are closely monitoring the situation. Under a scenario where incoming travelers are subjected to 14-day quarantines for the rest of the year, we would envisage a steeper decline in arrivals in 2020 and would likely delay the recovery. The recovery is likely to be gradual and it will take time for airline capacity to rebuild due to the slump in travel demand. … If Hawaii is the only or one of few destinations that require incoming travelers to get tested prior to making their trip, this would likely have a dampening effect on the tourism recovery.

If Hawaii extends its 14-day quarantine or imposes testing requirements on visitors, this could lead to "a steeper decline in arrivals in 2020 and would likely delay the recovery," according to Sarah-Jane Trimble, economist and lead author of the report.

Hawaii's government so far has provided unclear direction on when the 14-day quarantine will be lifted, and whether tests or other requirements on travelers will be implemented when airports reopen. If Hawaii continues to put hurdles in front of travellers for years to come, this could delay the recovery and continue to depress state tax revenues, possibly creating a scenario similar to the one after the Great Recession of 2007-2008.

During the Great Recession, state general fund tax revenues grew by 2% in fiscal 2008, fell by 4.52% in fiscal 2009, fell by 3.12% in fiscal 2010 and grew by 5.46% in 2011. Thus, during that 4-year span, the average tax revenue growth was 0.04%.[3]

During the current situation, if state tax revenues fall by 20% in fiscal 2021, followed by the average tax revenue growth of 0.04%, which is what happened during the Great Recession, this will create an $11 billion deficit in Gov. David Ige's budget by fiscal 2025.[4]




At this moment it is difficult to say by how much such a policy will impact the recovery, as we have not seen this properly implemented yet or detailed guidance from governments as to how such a policy would work, e.g.: Will the same tests be used globally? Will the test be readily available for travelers?"

[3] "State of the State Budget 2020," Grassroot Institute of Hawaii, March 2019, pp. 37-40.

[4] Hawaii state economists have estimated that tax revenues in fiscal 2021 will dip between 15% to 25%, so 20% is used as an average estimate. The -15% estimate was made by Eugene Tian, chief state economist, at a state Senate hearing on May 21, 2020 at 1:30 minutes. The -25% estimate was made by Carl Bonham, executive director of the Economic Research Organization at the University of Hawaii, at a state House hearing on March 30, 2020 at 10:30 minutes. The average growth in tax revenues from fiscal 2008 to fiscal 2011 was 0.04%.

As the Grassroot Institute of Hawaii had long been urging, Hawaii lawmakers should have been saving during our economy's boom years. Instead, they ignored the state spending cap and drained the budget surplus, leaving the state unprepared to deal with our current financial depression.[5]

Going forward, Hawaii lawmakers should scale back state spending and regulations so residents will not be overburdened while trying to get back to work. Our new report, "Road map to prosperity," offers specific policy options that could help Hawaii "recover and even excel after the coronavirus lockdown."[6]

Meanwhile, the Council on Revenues should not shy away from providing cautious estimates about how fast Hawaii's economy might recover. Our lawmakers need the most realistic information they can get to make fiscally responsible decisions, and they are counting on the council to provide it.

Thank you for the opportunity to submit our testimony.

Sincerely,

Joe Kent
Executive vice president
Grassroot Institute of Hawaii

**Attachment:** Sarah-Jane Trimble, et al., "COVID-19: pandemic impacts on North American city tourism," Tourism Economics, May 7, 2020.

[5] Keli'i Akina, "Hawaii needs a state spending cap with teeth," Grassroot Institute of Hawaii, Feb. 4, 2020.
[6] "Road map to prosperity: How Hawaii can recover and even excel after the coronavirus lockdown," Grassroot Institute of Hawaii, May 22, 2020.

7 May 2020

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# Travel & Tourism | Cities

## COVID-19: pandemic impacts on North American city tourism


**Economists**

Sarah-Jane Trimble
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Senior Economist

Helen McDermott
Director of
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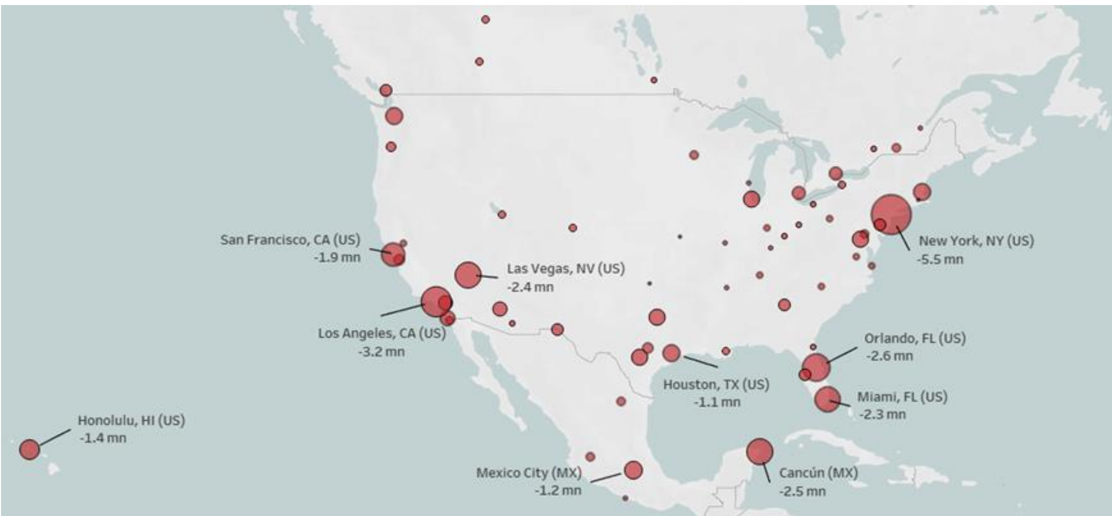
Tourism Economics


### Key points

- The COVID-19 global pandemic has led to one of the largest global crises since the second world war. The spread of the virus spans 185 countries, many of which have implemented a range of measures to slow the spread, at a cost of major disruption to the global economy and to global travel.
- Inbound arrivals to North America are expected to decline 40% in 2020, with a loss of 59mn visitors compared to 2019.
- Collectively, North American city visitor arrivals are also forecast to decline 40% in 2020 compared to 2019, equating to a loss of 42mn visitors for the 64 cities included in our GCT service.
- North American cities are considerably exposed to the unpredictable nature of the global travel outlook, with long-haul source markets accounting for almost half of all international visitor arrivals. Therefore, they may encounter a more volatile recovery path, as the easing of travel restrictions and sentiment towards international travel (especially long-haul) will take longer to recover than domestic travel.
- The declines in the 15 largest North American city destinations for international visitor arrivals represent a decline of 29mn visitors compared to 2019, with the largest declines in New York (5.5mn), Los Angeles (3.2mn) and Orlando (2.6mn).
- Domestic city visitor arrivals are forecast to decline 24% in 2020, a loss of 107 million visitors. Domestic tourism is particularly important in North America, accounting for on average, 84% of total visits to North American cities in 2020 and will play a crucial role in the recovery of the region's city tourism.

**An estimated 107 million fewer domestic visitors and 42mn fewer international visitors will travel to North American cities in 2020.**

**Decline in international North American city tourist arrivals (mn), 2019-2020**





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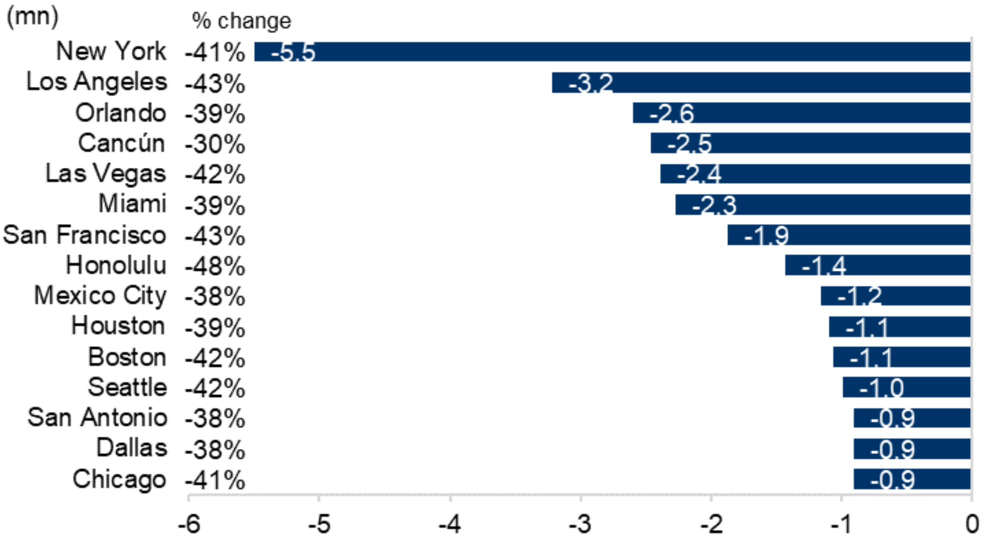
**The largest declines in international visitor arrivals in 2020:**

**New York 5.5mn**
**Los Angeles 3.2mn**
**Orlando 2.6mn**

## Impact on city inbound travel

The United States is currently the focal point for the coronavirus, with the highest number of reported cases and deaths globally. The intense spread of the virus is having adverse consequences on the US economy and is set to devastate inbound travel in 2020, with the three hardest hit cities in North America coming from the United States. New York, as the worst affected city within the region, is unsurprisingly forecast to suffer the greatest decline in international visitors at 5.5mn, followed by the tourist hot-spots, Los Angeles and Orlando at 3.2mn and 2.6mn.

**North American city international visitor arrivals decline, 2019-2020**




Source: Tourism Economics

The top 10 cities in North America ranked by international visitor arrivals will remain largely unchanged in 2020, with most cities holding their position, while Honolulu and Houston are forecast to swap positions at 9th and 10th. New York is forecast to maintain its position as the most popular city in 2025, receiving 14.2mn international visitors.

**North American city international visitor arrivals**

| | 2019 Regional Rank | 2019 Global Rank | 2019 (mn) | 2020 Regional Rank | 2020 (mn) | 2025 Regional Rank | 2025 (mn) |
|---|---|---|---|---|---|---|---|
| New York | 1 | 6 | 13.5 | 1 | 8.0 | 1 | 14.2 |
| Cancún | 2 | 17 | 8.2 | 2 | 5.8 | 2 | 10.3 |
| Los Angeles | 3 | 20 | 7.4 | 3 | 4.2 | 3 | 8.0 |
| Orlando | 4 | 22 | 6.6 | 4 | 4.0 | 4 | 7.1 |
| Miami | 5 | 28 | 5.8 | 5 | 3.6 | 6 | 6.0 |
| Las Vegas | 6 | 30 | 5.7 | 6 | 3.3 | 5 | 6.0 |
| San Francisco | 7 | 39 | 4.4 | 7 | 2.5 | 7 | 4.7 |
| Mexico City | 8 | 55 | 3.0 | 8 | 1.8 | 8 | 4.0 |
| Honolulu | 9 | 56 | 3.0 | 10 | 1.6 | 10 | 3.0 |
| Houston | 10 | 62 | 2.8 | 9 | 1.7 | 9 | 3.2 |
| Boston | 11 | 67 | 2.5 | 13 | 1.5 | 11 | 2.7 |
| San Antonio | 12 | 72 | 2.4 | 11 | 1.5 | 13 | 2.7 |
| Dallas | 13 | 73 | 2.4 | 12 | 1.5 | 12 | 2.7 |
| Seattle | 14 | 74 | 2.4 | 14 | 1.4 | 14 | 2.7 |
| Chicago | 15 | 80 | 2.2 | 15 | 1.3 | 15 | 2.3 |

Source: Tourism Economics

Key: Moved up rankings relative to 2019 | Moved down rankings relative to 2019



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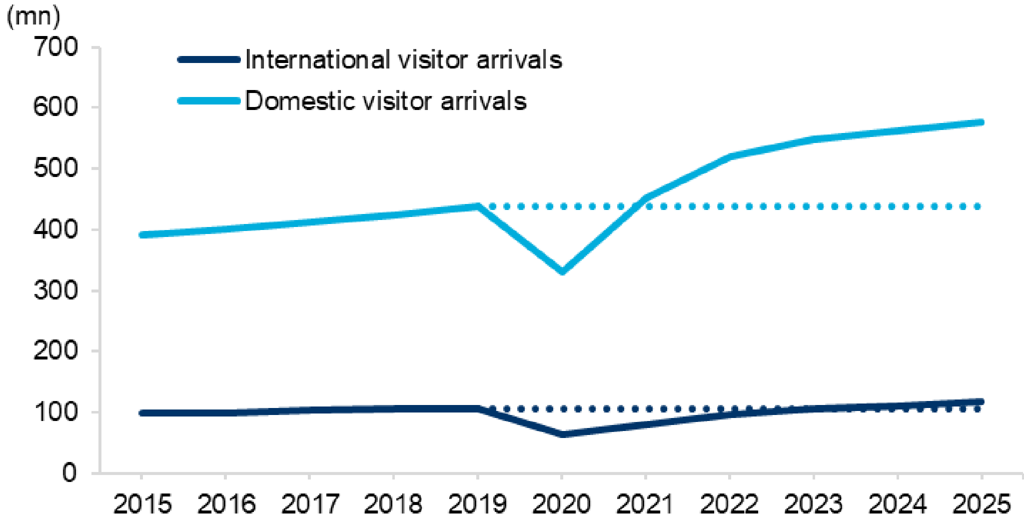
Recovery of city travel

Tighter travel restrictions and the extension of travel bans imposed across North America are having a damaging impact on international visitors; the desire to travel internationally may also take some time to bounce back. Therefore, international visitors to North American cities are not expected to surpass 2019 levels until 2024, while domestic visitors will see a quicker recovery rate, exceeding 2019 levels in 2021.

**Domestic visitor arrivals to cities will surpass 2019 levels in 2021 but international visitor arrivals will not until 2024.**

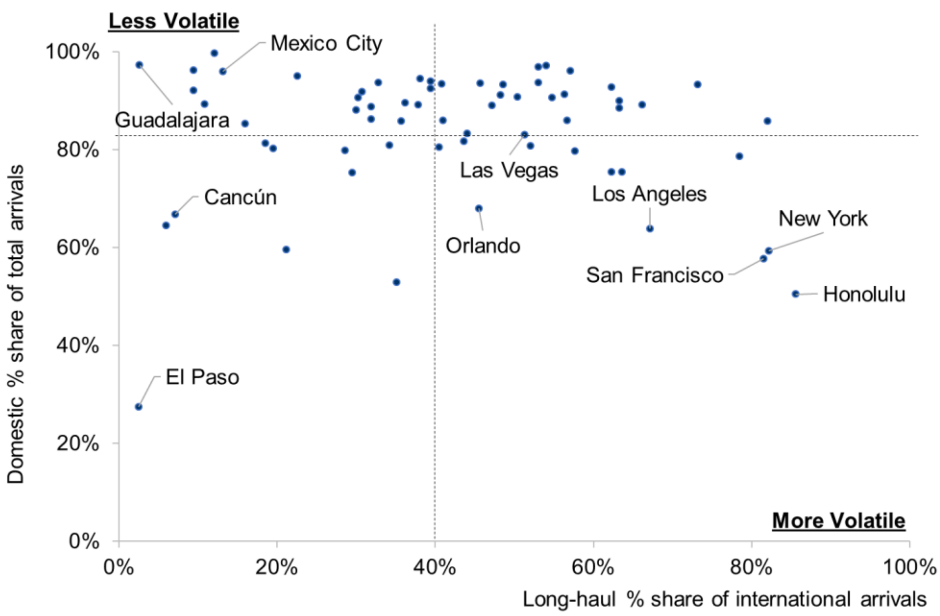
**North American city international vs domestic visitor arrivals**




Source: Tourism Economics

On average, domestic visitor arrivals account for 84% of total visitor arrivals to North American cities, with cities such as Mexico City and Guadalajara gaining over 90% of their arrivals from domestic visits. A greater dependency on domestic tourism may ease the region's recovery period, as travel restrictions are likely to be lifted for domestic travel prior to international travel. However, a significant share of international visits to the region are from long-haul markets. On average, long-haul visitor arrivals account for 42% of international visits to North American cities. Honolulu, New York, and San Francisco may encounter greater challenges in their recovery compared to other North American cities, as long-haul visits account for over 80% of total international visits.

**City reliance on domestic and long-haul arrivals, 2020**




Source: Tourism Economics

**Note: Annotated cities are those ranked in the largest cities for international visitor arrivals and match the criteria of a less or more volatile recovery**



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