

HAWAII COUNCIL OF ASSOCIATIONS
OF APARTMENT OWNERS

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Per your Request

February 14, 2008

Sen. Carol Fukunaga, Chair
Sen. Will Espero, Vice-Chair
Senate Committee on Economic Development and Taxation

RE: SB 2722, SD1 Re Fire Sprinkler Tax Deduction
Hearing: Tues., Feb. 12, 2008, 1:15 p.m., Conf. Rm. #224

Chair Fukunaga and Vice-Chair Espero and Members of the Joint-Committee:

I am Jane Sugimura, President of the Hawaii Council of Associations of Apartment Owners (HCAAO).

HCAAO supports the intent and purpose of this bill, especially since it may motivate apartment owners to install a fire sprinkler system in their buildings and units. HCAAO also supports the amendment that would allow non-owner-occupant of residential condo or co-op units to obtain the tax deduction. Accordingly, we ask that you pass this bill out of the committee to allow further discussion on this issue.

The Department of Taxation claims that passage of this bill would result in substantial losses to the State of Hawaii due to the deductions being claimed. We disagree. Installation of fire sprinkler in condos and co-ops take a long time. Therefore any losses to the State from this deduction would be spread over a long period of time.

Both condominiums and co-operative housing corporations operate through a board of directors with the consent of the owners (shareholders in co-ops) and before any fire sprinklers can be installed it must first be approved by a majority of owners or shareholders.

The fire sprinklers cannot be installed only in the apartment units. The installation affects the common areas of the building. Accordingly, before this equipment can be installed in condominiums, fire sprinklers must be placed in the condominium's reserve study and money collected from the apartment owners to fund the installation. In most cases, it will take 15 - 20 years to collect sufficient funds to install the sprinklers. Since each building would be operating on its own separate timetable, I cannot envision that a lot of condos and co-ops will decide at the same time to install fire sprinklers.

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There are over 300 condominiums and co-op buildings in Oahu. It is unlikely that some or all of them will decide at the same time or within a short period of time to install fire sprinklers. If that happened, we know from the 2005 City and County Fire Safety Task Force that there are not enough plumbers in the State to do that work.

Also, there is a high percentage of seniors now living in condominiums and co-ops and in 15-20 years the numbers should grow since "aging in place" appears to be a policy supported by the State of Hawaii and the retirement community as a whole. Most of the seniors do not pay taxes so they will not be entitled to the deduction.

Without this bill, retrofitting of high-rise buildings [to install sprinklers] is not likely happen since many owners do not have the "extra funds" to pay for that cost and it takes an affirmative vote of a majority of apartment owners to agree to pay for retrofitting. Assuming owner approval happens, in accordance with the budget and reserves law in HRS 514A, retrofitting will be added to the condo's reserve study and the association will have a consultant estimate how long it would take for the association to raise the requisite funds, which could run between 10-20 years.

Allowing tax deductions should not have a negative impact on the State. Whatever reduction in income taxes paid by residents would be offset by the 4% GET on the work done and income taxes paid by the contractors who do the works. The cost to most buildings will be over \$1 million and the City claims there are over 300 high-rise buildings on Oahu that are higher than 75' and would be subject to retrofitting. That's a lot of tax revenue that would be generated for the State.

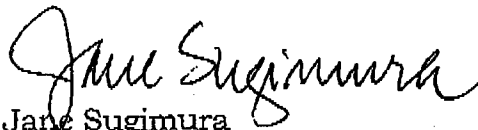
The tax breaks to apartment owners should be spread out over 15-20 years because there are not enough available contractors who can retrofit the over 300 buildings in Oahu that would be subject to retrofitting. Given the construction boom and all of the new military and new housing projects, there may not be contractors who could do this work. If this task were to be completed in 20 years, that means 15 buildings a year. Retrofitting a high-rise building would take months - not weeks and in a building like the Marco Polo or Yacht Harbor Towers that have over 500 units - it would take over 1 year.

HCAAO believes that this type of incentive is necessary to encourage apartment owners to install fire sprinklers in their units and in their building.

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Although this bill is not a "cure-all" that will guaranty that sprinkler systems will be installed in high-rise residential buildings, it is absolutely necessary to provide incentives like this to continue the discussion. For these reasons, we ask that you pass this bill out of this committee.

Thank you for the opportunity to testify.



Jane Sugimura
President